The Incorporated Accountants' Journal.

THE OFFICIAL ORGAN OF

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Contents.

Professional Notes.

THE Bill to provide for the registration of accountants practising in the Irish Free State has been rejected by the Senate of Saorstát Eireann on second reading by 18 votes to 15, and it may be accepted that the Committee of Chartered and Incorporated Accountants in the Irish Free State will abandon further attempts to obtain registration for the profession. We are also given to understand that the joint Committee of Chartered and Incorporated Accountants at Belfast has decided not to proceed with the promotion of a Registration Bill for Northern Ireland.

We do not propose to deal with the proceedings at the recent ordinary general meeting of Marconi's Wireless Telegraph Company, Limited, except in so far as they relate to the auditors of the company. After prolonged discussion the directors' report and the balance-sheet for 1925 were adopted, and the shareholders in accepting the motion also agreed to the recommendations for writing down the values of the assets as recommended by Sir Gilbert Garnsey and concurred in by the company's auditors. When it came to the re-appointment of the auditors, Messrs. Cooper Brothers & Co., some strong opposition was manifested although there was no specific allegation that they had failed to discharge their duty to the shareholders. Finally, a resolution was carried appointing Messrs. Price, Waterhouse & Co., together with Messrs. Kemp, Chatteris, Nicholls, Sendell & Co., as the company's auditors in place of Messrs. Cooper Brothers & Co., whose name was withdrawn from the meeting by one of the partners of the firm who was present.

The *Times* in a leading article considers the outcome of the meeting in regard to the auditors to be unsatisfactory, and does not hesitate to say they were virtually abandoned to an excited and disorderly body of shareholders. "The hostility," says the *Times*, "was apparently not due to any sort of belief that the auditors had failed in their duty. It seemed to spring from a desire to mark the dissatisfaction of the shareholders with the wording of their certificate, which was considered inadequate to meet the circumstances of the case. The question for the whole profession in future will be whether it has not become necessary to use stronger language in their certificates when their views are as definite as they certainly were in the present instance."

It is too often forgotten that auditors have to deal with the accounts as and when they come before them with due regard to the circumstances existing at the time of the audit, and not in the light of subsequent knowledge. We feel that in this case Messrs. Cooper Brothers & Co. have not been too well treated by the shareholders. It is easy to say that their certificate should have been expressed in stronger or clearer language, but this might have been even more damaging to the interests of the

Marconi shareholders than the result of the investigation which Sir Gilbert Garnsey subsequently carried out with Messrs. Cooper Brothers & Co.'s assistance. The work of an investigating accountant is often received with commendation, but he generally knows what he is expected to look for and his responsibility, apart from carrying out his instructions, is far less than that of the auditors of the company who are bound carefully to consider what they should publish to the world in their report, and what ought to be withheld while fulfilling their obligations under the Companies Acts.

We have repeatedly drawn attention to the scandal attaching to the conduct of some ex-inspectors of taxes who advertise for the purpose of personal gain their former connection with a Government Department in order to induce taxpayers to place in their hands the preparation of income tax returns, and the formulation of repayment claims for submission to the Inland Revenue. The latest case is in connection with Harrods' Stores, who intimate that they have opened an income tax department, where the advice and assistance will be the best obtainable, "the head of the department having been for a number of years inspector of taxes for one of the most important districts of London."

We should have thought it would have been apparent to a house like Harrods, with a world wide reputation, that the opening of an income tax department under the supervision of a former Government official was not the sort of service that thinking and responsible members of the community would expect them to offer to the public. Complaints to the Inland Revenue in regard to the activities of these ex-inspectors do not seem to be fruitful of any remedy, and having regard to a course of conduct on the part of former Government officials, which is opposed to all ethical considerations, the Council of the Society of Incorporated Accountants and Auditors will no doubt take further steps for the protection of those who are bound to conform to recognised professional standards.

The Comptroller and Auditor-General has published the accounts and balance-sheets of trading or commercial services conducted by Government Departments during the period ended March 31st, 1926, together with his report thereon. In this report Sir Malcolm Ramsay says: "In view of the wishes expressed by the Public Accounts Committee, columns showing percentages have been added throughout the present volume to the accounts and balance-sheets. To avoid delay in publication, the accounts have been printed as submitted to me, but neither the officers of the Treasury, with whom I have consulted, nor I are satisfied with the result. In our view, the whole question of the form in which the percentages are exhibited, and the extent to which they should be applied, calls for further consideration. I propose to invite the Treasury to review the matter in the light of any observation the Public Accounts Committee may wish to make on examining the various accounts." Sir Malcolm Ramsay's dissatisfaction does not surprise us. While no doubt it is useful for purposes of comparison to show percentages against the items in the trading and profit and loss accounts, no practical purpose seems to be served by the use of percentages in the balance-sheets, which is apt to be confusing rather than helpful.

The Institute of Accountants and Actuaries in Glasgow (incorporated by Royal Charter, 1855) has issued its annual report. The total membership at December 31st last was 1,478. Reference is made in the report to the use of the designation "Chartered Accountant" in South Africa, and also to the direct control of the Institute over the registration of indentures. It is proposed that all indentures lodged for registration shall be submitted to the Council for approval, subject in the event of rejection to a right of appeal to the Institute in general meeting. Accompanying the report is the report of the General Examination Board of the Chartered Accountants of Scotland, in which it is stated that all candidates whose indentures began after December 31st, 1926, are required to produce as preliminary qualification a Leaving Certificate of the Scottish Educational Department (with higher grade passes in English and mathematics), or equivalent passes in the Scottish Universities Entrance Examination or any such other examinations as the Board may approve. The Scottish Chartered Accountants have thus substituted for their own preliminary examination a public examination of recognised standing, and we hope the time is not far distant when the preliminary examination will be generally dispensed with throughout the profession in a similar manner.

The last year or two have been notable for the output of reports made by Committees appointed by the Government. These reports by responsible and representative men are the result of detailed investigation and close application to the study of the subjects referred to the respective Committees. The latest report is that to the President of the

Board of Trade by the Departmental Committee appointed to inquire into desirable amendments in the Assurance Companies Act, 1909. The Chairman of the Committee was Mr. Justice Clauson, and the Committee held 75 meetings since its appointment in 1924, at thirty of which evidence was taken. The Committee's report has been issued mainly in the useful form of a draft "Assurance Undertakings Bill," in the preparation of which the Government gave the Committee the assistance of Mr. Granville Ram, Third Parliamentary Counsel to the Treasury. The proposals of the Committee in regard to accounts and periodical returns are published in another column.

In the House of Commons recently Mr. Churchill, as Chancellor of the Exchequer, made a statement in regard to inter-allied debts which is timely on account of inaccurate statements which have been circulated abroad regarding the position of our country. Mr. Churchill said that during the calendar year 1927 Great Britain should receive £12¾ millions in respect of German Reparation (including Belgian War Debt), and £9½ millions in respect of Allied War Debts, or £22¼ millions in all, and will pay £33 millions to the United States Government. During 1928 Great Britain should receive £16¾ millions from Reparation and £11½ millions from War Debts, or £28¼ millions in all, and will again pay £33 millions to the United States Government. From 1929 onwards our receipts would be sufficient, on the assumption that it is found possible to transfer the full Dawes annuities, to cover current payments to the United States Government, which rise in 1933 to nearly £38 millions. But, even if the full Dawes payments were received each year for 60 years from now, our receipts from Reparation and Allied War Debts would not be sufficient, on the basis of present values, to cover our payments to the United States Government, including those made in the past before we received anything from our debtors.

In our January issue we endeavoured to indicate the grounds on which Mr. Justice Rowlatt decided the cases of *S. R. Lysaght* v. *Commissioners of Inland Revenue*, and *Commissioners of Inland Revenue* v. *Zorab*. These cases referred to the subject of residence in this country for the purpose of liability to income tax assessment, and the result appeared to be that if a person came here regularly to carry out business engagements from which he derived a substantial income he was liable to assessment, but if he came merely for pleasure and with the object of seeing his friends he was not so liable. The Court of Appeal have now had the case of *Lysaght* before them, and in reversing Mr. Justice Rowlatt's decision have taken a diametrically opposite view. They say in effect that if a person comes here merely because his business necessitates his presence he is not a resident, but if he comes of his own choice for the purpose of pleasure or recreation he is liable as a resident. This is, of course, a general statement, and is qualified to an extent by the length of time the person resides in this country.

The line of reasoning of the Appeal Court will be seen by comparing the judgments of the Master of the Rolls in two cases which came before the Court at the same sitting. The first was that of *Levene* v. *The Commissioners of Inland Revenue*. Mr. Levene was a British subject who had discontinued business for many years, and was living abroad for the greater part of the year. He came to England regularly for considerable periods each year to visit relatives and to deal with his income tax affairs. The Master of the Rolls said:—

> "A characteristic factor for consideration on the matter is to ascertain if the suggested alternative place of residence was one which the subject sought willingly and repeatedly in order to obtain rest or refreshment, or recreation suitable to his choice. Another important factor is: did he return to and seek his own fatherland to enjoy a sojourn in proximity to his relations and friends."

The result was he was held to be resident.

The other case was that of *S. R. Lysaght* above mentioned. Mr. Lysaght was a director of a company which carried on business in England, and he came over to this country regularly at monthly intervals to attend board meetings, and remained for consultation with the other directors and for committee meetings, thereby spending three or four months each year in this country. In relation to this case the Master of the Rolls said:—

> "In my judgment a man may repeatedly visit a country and yet not acquire a residence, because he may go to a place to which business or duty calls him and whither he resorts for such time only as that duty compels him to remain. That is a place not fixed by himself, but determined by other considerations than his own desire or volition—a visit which might have led him somewhere else if the path of duty had lain in a different direction."

In this case Mr. Justice Rowlatt's decision was reversed and Mr. Lysaght was held not liable to

assessment, but as Mr. Justice Lawrence dissented from the finding of the other Judges it is quite likely there may be an appeal to the House of Lords. As matters now stand the position is most unsatisfactory, as nobody can tell with any degree of certainty the circumstances which will constitute residence sufficient to incur income tax liability.

An interesting point in relation to Schedule A assessments was decided in the case of *Davies* v. *Abbott*. A premium of £200 had been paid for a fourteen years lease which was subject to an annual rent of £30, the lessee covenanting to do all internal and external repairs except repairs to roof. The gross estimated rental for the purpose of poor rate was £35. When the case came before Mr. Justice Rowlatt he remitted it back to the Commissioners with a direction that the principle to be adopted was to add to the rent reserved by the lease one-fourteenth of the £200 premium and that no allowance should be made in respect of interest on the £200. The Court of Appeal have varied this decision, and decided that the assessment must be arrived at as follows:—

Rent under Lease	£30
One-fourteenth of £200 premium and interest thereon	24
Landlord's repairs (an agreed figure)	14
	£68

The Master of the Rolls pointed out that the £200 having been paid at the beginning of the lease the tenant lost interest on that £200 during the term of the lease, and that such interest was therefore part of the consideration and must be taken into account in arriving at the assessment. The rate allowed is between 5 per cent. and 6 per cent.

Various new schemes of life assurance are being put forward by the companies in order to encourage the taking out of policies. The latest is one which is a combination of an endowment and a whole-life policy. The original sum assured is to be payable at death, but the bonuses are to be payable in full when the premiums cease at the end of an agreed term or previous death. The effect of this is that the policy holder may receive a payment in cash during his lifetime of the whole of the bonuses accrued on the policy at a fixed age, leaving the sum assured as family provision when death occurs. There is thus both a cash payment of the bonuses and a stoppage of the premiums at a given age. The chief difference between this and an ordinary endowment policy is that the original sum assured does not become payable until death.

An attempt is apparently being made by the Government to put a stop to the avoidance of income tax through registration of companies in the Channel Islands. A memorandum has been submitted by the Government to the Jersey States regarding the removal of domicile or property from the United Kingdom, asking for co-operation and the nomination of a Committee to discuss the matter with the advisers of the Government. The Jersey States have appointed a Committee to go into the subject of the memorandum, and the feeling amongst the States appears to be that something ought to be done to prevent the Channel Islands being used to avoid United Kingdom taxation.

At a recent meeting of the Institute of Actuaries, the Vice-President took an opportunity of assuring accountants that actuaries had no intention of encroaching upon the sphere so well served by the profession of accountancy, and he expressed the attitude of the Institute of Actuaries in the following terms:—

> "In our view the relative functions of an actuary and an accountant are entirely distinct. Our two professions are in no sense competitive, but rather complementary. There are some problems for the solution of which an actuary will call for the advice of an accountant, or, alternatively, an accountant will call for the advice of an actuary. But when we meet on common ground we meet not as rivals but as colleagues, and, I hope, friends."

Speaking at the Birmingham Chartered Accountant Students' dinner, Sir Josiah Stamp said that great as the growth of the importance of the accountancy profession had been in the past thirty years, he was confident that the next thirty would be even more striking. There was, he said, no single development of our economic life which was not promising to provide new functions for a profession which had solved the problem of representing a client and yet standing *pro bono publico* as the unbiased referee of facts. In fiscal questions, Sir Josiah said, there was not much more ground for the accountant to gain, for he had won it all by an untarnished record for probity, but in the arrangements between masters and men in industrial matters, and also in the refined measurements of

costs, which was one of the engines of internal control, the accountant's part was becoming more and more important. In what he termed the development of realistic economics, on the other hand, he did not think the profession was displaying the power of abstract and imaginative analysis which was essential for such a task. We are not sure that we know precisely what is meant by imaginative analysis. Accountants are accustomed to deal with definite facts and figures and to avoid entering into the sphere of imagination. If ever they are tempted to transgress this salutary rule they usually have cause to regret it.

Holders of the 15s. 6d. Savings Certificates which were issued before April 1st, 1922, should note that these certificates will reach maturity on or before March 31st, 1932, and that four courses are open to them, viz:—

1. To hold the certificates until they mature on the date mentioned.

2. To exchange them for the 16s. certificates of the recent issue.

3. To convert them into 4% National Savings Bonds.

4. To convert them into 4½% Conversion Loan.

Full particulars of the terms of conversion and information for arriving at the comparative advantages of these various courses will be found in an official notice (C.N. 1) which may be obtained from the National Savings Committee, Princes House, Kingsway, London, W.C.

"Let me have men about me that are fat; sleek-headed men, and such as sleep o'nights." So Shakespeare put into the mouth of Julius Cæsar, but Dr. Webb-Johnson will have none of it. In a recent address to a branch of the British Medical Association he said "there has always been a connection not only between fat and folly, but also between fat and felony." "Financial criminals" (of whom the Doctor gave some well known examples) "have been over-burdened with adipose tissue," the result, he argued, of self indulgence which caused them to practise their frauds in order to obtain the means for personal gratifications. The modern Cassius with "a lean and hungry look" is acquitted, and the fat man condemned. But Dr. Webb-Johnson's analogy must not be carried too far. One swindler whom we saw in the dock was neither fat nor lean, but of proper condition with a benevolent and ingratiating appearance which went a long way towards assisting him in his career of crime.

Law of Arbitration Committee's Report.

The time does not seem far distant when every candidate for the accountancy Final examination devoted some fair portion of his reading to the Law of Arbitration and Awards. But the subject seems to have fallen from grace in the eyes of the Councils of the Institute and Society. It is true that in the Institute's bye-laws it retains a modest mention with "Principles of Mercantile Law," but in the syllabus of the Society it is not even alluded to, and we assume that the urgency of modern conditions has compelled arbitration law to give place to the study of economics and statistics and the acquisition of knowledge of commerce and finance. We do not question the attitude of the Council of the Society, or of its Examination Committee, because of the spasmodic nature of arbitration work in the profession, and also having regard to the fact that a good arbitrator is born rather than made, although a modicum of training is essential.

The Arbitration Act of 1889 provides that unless the submission otherwise directs the reference shall be to a single arbitrator. This provision is either overlooked or generally disregarded, because a practice has grown up for the nomination of two arbitrators, one appointed by each party, and an umpire selected by the arbitrators upon entering on the reference. In a great many submissions it is common to add that the umpire shall sit with the arbitrators from the beginning, and not as contemplated by the Act, only assume this office when the arbitrators have agreed to differ. The Committee appointed by the Lord Chancellor and presided over by Mr. Justice MacKinnon, which has recently presented its report, has attacked the practice of the appointment of two arbitrators in no uncertain fashion. "The system," they say, "has grave practical results often in the way of delay, invariably in regard to expense. For arbitrators are too often selected as partisans or advocates who are not likely to agree and perhaps are not intended to do so." So unsatisfactory and wasteful is the system that the Committee are convinced that its continued and widespread use is mainly due to two causes: first, the desire of the parties, by the agency of the arbitrators, to procure the appointment as umpire of a competent and impartial person, and secondly, the desire to employ the arbitrators as advocates of their respective causes before the umpire. The Committee also point out that at present there is no very practical means of controlling the amount of fees which arbitrators and umpires can require to be

paid by a party who desires to take up an award, and this tends to aggravate the expensiveness of arbitrations, especially in cases where two arbitrators and an umpire have acted throughout the proceedings.

It is not surprising, therefore, that the Committee urge that these evils should be mitigated, and they have recommended that where a submission provides for the appointment of two arbitrators who are to appoint an umpire, then it shall be the duty of the arbitrators to appoint the umpire immediately after they are themselves appointed, and if they fail to do so either party to the submission shall be allowed to apply to the Court or a Judge to appoint an umpire. The Committee also recommend that at any time after the appointment of an umpire either party to the submission may apply to the Court or a Judge for an order that, notwithstanding anything to the contrary in the submission, the umpire shall henceforth act as sole arbitrator. The Committee further recommend that a party to a submission may apply to the Court or a Judge for the taxation of the fees made payable by an award. In our opinion the Committee have gone to the very root of the weakness of the present law of arbitration. For years past such bodies as the London Court of Arbitration have struggled against the practice of requiring that disputes shall be referred to two arbitrators and an umpire, who are often called upon to sit together at an expense to the parties which in the end is more costly than a resort to the Law Courts. It is the practice of the leading Chambers of Commerce and the great trade associations to appoint from a panel of qualified men possessing public confidence a single arbitrator to hear and determine disputes and differences arising amongst their members, and we are sure that they will welcome the outspoken nature of the MacKinnon Committee's report.

In order to secure the prompt hearing of arbitrations and the avoidance of delay, the Committee recommend that the three sub-sects. (*c*), (*d*) and (*e*) of the First Schedule of the Act of 1889 should be repealed, and in place of them there should be substituted a provision to the following effect:—"An arbitrator, or arbitrators, or an umpire shall proceed with the arbitration, and shall make his or their award with all reasonable dispatch. If he or they fail to do so either party to the submission may apply to the Court or a Judge for leave to revoke the submission, or for an order appointing an arbitrator or an umpire in the place of one so in default. Any arbitrator or umpire removed from his office pursuant to such an order shall have no claim for any remuneration for any work he may have done."

The enforcement of awards and the opportunities for delay which are now open to an unsuccessful party have been under serious consideration by the Committee, who suggest an amendment in the wording of sect. 12 which provides that an order may be made for enforcing an award in the same manner as a judgment. But this order, the Committee say, does not create a final judgment, and consequently a bankruptcy notice cannot be founded upon it. The Committee think that sect. 12 should be amended so as to provide that a final judgment in the terms of an award may be entered. They suggest that, in addition to the effect as regards bankruptcy proceedings, this change may facilitate the enforcement in other countries of awards made in England.

The Committee express doubt whether an arbitrator or umpire can make an award ordering any sort of specific performance, and if so, he should at any rate be given the power to order the delivery of specific goods under sect. 52 of the Sale of Goods Act, 1893, against payment of their price. It is perhaps a matter of policy, but the Committee see no reason why he should not also be given power to order specific performance of a contract by the delivery of any property other than land or money in any case in which the Court might lawfully do so.

Examples of hardship under the existing law have been brought before the Committee. It seems to be increasingly common for forms of contract for sale of commodities to stipulate in the arbitration clause that a claim for arbitration must be put forward within a limited time or it shall be conclusively barred. There used to be a common provision in the arbitration clause in insurance policies that in any event each side should bear its own costs, but the Committee believe that this provision has disappeared from new policies. They point out that the opportunity to use its effect in order to drive a claimant to compromise rather than continue the proof of items of his claim at his own expense is obvious. In building and engineering contracts it is a common practice to require contractors to tender upon and agree to a form of printed contract by which all disputes are to be decided by an architect or engineer who is in the employ of the other party, and very often of one whose own acts or requirements on behalf of his employer may create the dispute which must be referred to his decision. It is not uncommon for an arbitration clause to provide that in no circumstances shall either party ask for a special case for the opinion of the Court, or for the making of an award in the form of a special case. The Committee make specific recommendations for the amendment or clarification of the existing law in regard to all these matters.

One of the most outspoken clauses of the Committee's report deals with the concluding words of sect. 23 of the Arbitration Act, 1889—"nothing in this Act . . . . shall affect the law as to costs payable by the Crown." The Committee say that they are informed that in a recent arbitration an award against the Crown for a very large sum was made, but as a result of this provision the successful party had to bear his own costs and also to pay the fees of the arbitrator, and even the cost of hiring the room in which the lengthy proceedings were held. The Committee are assured and believe that there is a strong feeling in the minds of many serious people that this result was not satisfactory, and they conclude by saying—"If it is within the scope of our reference, we have to say that we agree with this opinion, and think that the section or the practice should be amended."

The Committee make other valuable observations and recommendations, which are reproduced elsewhere, and in drawing their report to a conclusion, they suggest that if the proposed amendments or a substantial number of them be made it would be easier and much more satisfactory to repeal the Arbitration Act of 1889, and re-enact it in an amended form rather than to pass a mere amending Act. A number of representative bodies submitted their views to the Committee, including the Society of Incorporated Accountants and Auditors, the Law Society, the London Court of Arbitration, and the Manchester Chamber of Commerce.

The Colwyn Committee and Taxation.

By W. H. COATES, LL.B., B.Sc. (Econ.).

Appointed in March, 1924, by Mr. Chancellor of the Exchequer Snowden, the Colwyn Committee on National Debt and Taxation has at last reported upon the wide field committed to it, namely, the national debt and the incidence of existing taxation, with special reference to their effect on trade, industry, employment and the national credit. During its three years work the Committee heard 62 witnesses, including representatives of Chambers of Commerce, Chambers of Trade, the Trades Union Congress, the Co-operative Congress, the Women's Co-operative Guild, the National Union of Manufacturers and the Federation of British Industries. In addition, bankers of the standing of Mr. McKenna, Sir Felix Schuster, Mr. Alfred Hoare and Mr. Beaumont Pease, and eminent economists represented by Professors Pigou, Cannan and Keynes, contributed valuable evidence. Landowners were represented by Lord Clinton, and accountants by Sir Arthur Lowes Dickenson, Sir John Mann and Mr. G. Stanhope Pitt. The financial and statistical experts, official and unofficial, included Lord Bradbury, the Hon. Robert Brand, Professor Bowley, Sir Richard Hopkins (of the Board of Inland Revenue), Lord Hunsdon, Mr. Walter Layton, Sir Otto Niemeyer (of H.M. Treasury), and Sir Frederic Wise. Among this galaxy of talent and knowledge it is perhaps surprising to find only one representative of big manufacturing business, namely, Sir Hugh Bell. The subject under review was of vital importance to the leaders of industry. Was it, then, impossible to obtain the reasoned opinions of men eminent in our great cotton and wool industries, the engineering and chemical industries, and others of paramount importance in our national economy? Or did the Committee think that men immersed in the primary industries would not have the necessary time or inclination to tender evidence of real value? We are left to guess. The omission is, however, of importance, for the subjects under review act and re-act upon business. They are, moreover, subjects upon which there is conflict of opinion between theory and practice. Unfortunately, therefore, an opening is left to the business man to reject any of the Committee's conclusions with which he disagrees, on the ground that too much weight was given to theoretical considerations and too little to matters of fact and practice.

The Committee was unable to present a unanimous report, and it is regrettable, though perhaps inevitable, that the division has a political tinge, which may be seen in the personnel of the minority, viz, Mr. Bowen, Mr. Lees Smith, Professor Hall and Mrs. Barbara Wootton. The difference between the views of the majority and the minority, as respects existing taxation—with which in this article we are alone concerned—is one of degree rather than of substance, so that attention may be mainly concentrated on the majority report. It runs to 350 pages of some 500 words each, or an aggregate of 175,000 words, which in itself is a serious defect in a report of this nature. As a literary work, the report is admirable; as an effective business document it is deplorable. The business man—to whose mind the Committee should have particularly and pointedly addressed itself—who can find the time to study fully and carefully a document of this almost interminable length, will be the exception and not the rule. Future committees of this nature might well be fashionable and adopt a slogan closely allied to the maxim that "Brevity is the soul of wit."

The years between 1913 and to-day provide an amazing illustration of the potency and elasticity

of a scientific instrument of taxation. Even the hardiest theorist in 1913 would not have dared to have forecast such a development of taxation as these years have shown; the staunchest business man would have died of shock at the thought. To these factors may be attributed the fiscal cowardice which marked the early years of the war, with all its evil consequences of inflation. From a normal rate of 1s. 4d. the income tax rose to a peak of 6s. in the £, and has not yet fallen below 4s. Its cousin, the super tax, was increased from a flat rate of 6d. on all income in excess of £3,000 to a maximum rate of 6s. on all income over £30,000, a rate which still remains with us. The estate duty was raised on three occasions, and its maximum rate enlarged in the ratio of 3 to 8. On tea the duty rose from 5d. to a maximum of 1s., but is now, at 4d., back below the 1913 rate. Sugar, from a rate of 1s. 10d. per cwt., soared as high as 25s. 8d., though it has now fallen to 11s. 8d. Tobacco escaped more lightly. A rate of 3s. 8d. per lb. was not much more than doubled, and the highest rate attained still stands at 8s. 2d. Beer and spirits carried part of the burden, the rate on the former being developed from 7s. 9d. a standard barrel to 100s., from which a modicum of relief has now been given, while the rate per gallon on spirits was multiplied nearly five-fold, from 14s. 9d. to 72s. 6d.

The aggregate yield of taxation reflects these enormous increases. In 1913, the Inland Revenue duties, which may be taken broadly as representing the direct taxes, brought in £87 millions; at the peak in 1919 the yield was over £717 millions; even to-day, at £420 millions, the increase is nearly five-fold. In the indirect field, customs and excise duties have not expanded so much when the comparison is made between 1913 and 1925. Over this period the increase is slightly over three-fold, and even for the peak year of 1920 it was less than four-and-a-half times. There is sufficient material in these facts to show the added burden that the taxpayer has had to carry, but the Committee adduces more pointed evidence in tables of the weight of the direct taxes on specimen incomes, ranging from £150 to £50,000, in the years 1913, 1918, 1923 and 1925. At the £500 point the weight of the income tax (including super tax) in its heaviest form on the single individual drawing his entire income from investments has been multiplied by two-and-a-half between 1913 and 1925; at £1,000 the multiplier is 2.6; at £2,000 it has reached 3, and for the rich man with £50,000 it is nearly 5.5. Following the example of Sir Herbert Samuel in his paper to the Royal Statistical Society in 1919, the Committee has lent its authority to a speculative attempt to measure the death duties and the customs and excise duties in the same manner, that is, by estimating the amount of the burden for specimen incomes over the years mentioned above, with added particulars for the year 1903. It is doubtful whether this kind of calculation has any validity at all for the death duties, because it must be founded upon the very doubtful assumption that the incidence of those duties is upon the individual upon whose death they alone become exigible. In the case of the customs and excise duties, the lack of statistical material drives the Committee into estimates, conjectures, hazards, assumptions, speculations and hypotheses—the Report and the Annexe concerned actually employ these words—of the burden of indirect taxation falling upon individuals, or rather families, with given incomes. Giving the results the attention that they deserve, and bearing in mind that, as the Committee says, they are—in relation to the death duties and the taxes on entertainments, alcohol and tobacco—illustrations rather than measures of liability, the tables compiled show that the indirect taxes are regressive; in other words, the smaller the income of the wage earner, the larger is the rate per pound of his income which the taxes represent. The Committee recognises that this effect is "deficient in equity," but the alternative of raising the whole revenue from direct taxes on two or three million citizens is rejected on the ground that this course would "unduly . . . . . narrow the basis of taxation. There is great force in the argument which connects taxation with representation." Yet, almost in the same breath, it is admitted that the indirect taxes, being wrapped up in price, are so unobtrusive that they are probably not much realised. It is difficult to reconcile the two arguments. We may also notice that the Committee concludes that the post war taxes do not appear to have reduced the average or general standard of living of the working classes below the pre-war level. Presumably this refers to the net spending power of the workers. As the Committee also finds that wages increases have not, generally speaking, eliminated the burden of additional taxation by following the index of the cost of living, the explanation can only lie in the mal-adjustment of post-war wages to pre-war wages for various classes of workers, notably those in the so-called sheltered and unsheltered industries. The statistical evidence on this subject is, however, notoriously deficient, and the question is thus left in an unsatisfactory state. The Minority report roundly condemns the indirect taxes, but omits to give any weight to the estimate that out of approximately £12 of taxation falling to-day upon an income of £100, £8 arises from the taxes upon tobacco and alcohol. A further

£1 17s. 6d. in a budget of this range of income is attributed to the sugar duty, and the Majority report recommends that any future relief in taxation should be applied first in reduction of this duty.

The incidence and effects of the income tax and super tax, the death duties and the stamp duties are examined at considerable length. In the end all but the last emerge with colours flying, and even those of the stamp duties are not lowered nearly as much as they should have been. It is surprising that the Committee, composed largely of men who recognise the importance of facilitating the present movement of industry towards larger units, did not lay more emphasis upon the hampering effect which the conveyance and company capital duties have upon that movement. In dismissing the stamp duties merely as "one of the less satisfactory parts of the British tax system" the Committee appears to have been hypnotised by the *cliché* that "an old tax is a good tax." In the United States they have a better description of such duties in the expression "nuisance taxes."

In the review of the death duties many popular fallacies are scotched. The recent relief granted to agricultural land finds a proper condemnation. It is emphasised that taxation upon the occasion of death, and levied upon a base of capital values, does not mean that capital is destroyed or expended upon current consumption needs. On the contrary, such taxation, like all taxation, prevents a certain amount of new capital coming into being, but only to the extent that the proceeds of taxation are spent uneconomically or wastefully. The Committee is of opinion that the death duties are more harmful than the income tax to saving, because the physical effect of the latter is partially to reduce consumption in order to meet the tax. The amount of suppressed potential capital is therefore less, and the income that would have arisen therefrom is lost by all classes of income taxpayers. In the case of the death duties it is argued that the suppressed capital would be greater, and that the income lost wonld have been more highly concentrated in the wealthier classes, who would have saved more. If this be indeed so then the argument of the Committee in favour of regarding the death duties as incident on the decedent, on the ground that he can insure against them, is greatly weakened, and for the rest it would seem to follow that the graduation of the death duties is not properly related to the graduation of the income tax.

To the business man the conclusions of the Committee, in both the Majority and the Minority reports, upon the incidence and effects of the income tax and super tax, will be gravely disappointing. Sir Max Muspratt has already informed Mr. Churchill that the Federation of British Industries thoroughly disagrees with the finding that the present rate of taxation was not injurious to industry. He added that the fact that industrialists widely believed that heavy direct taxation had an adverse effect, and that they acted accordingly meant that such an adverse effect must exist. Unfortunately, this is only too true. A man who believes he has heart disease will never run upstairs. But if the reasoned views of the Committee be correct the industrialist should take heart of grace and shake off the psychological effects of his present belief, which hamper his efforts and clog his enterprise.

Sir James Martin, when the British Chambers of Commerce recently presented their views to the Chancellor, took the much more vital point of the effect of local rates. "It really amounts to this," said Sir James, "that while the Exchequer takes a toll of the harvest of industry, local authorities, where they incur expenditure without due regard to industrial conditions, are taking toll of the seed, because rates are a charge upon production and enhance the cost of goods and services both in the home and foreign markets." Here we have an economic truth of great import, and industrial leaders would do well to transfer much of their denunciation of the (mainly) innocent income tax to the conviction of the guilty local rates.

The Committee holds that the economic arguments presented to it, reinforced by an exhaustive statistical argument drawn from Inland Revenue statistics of profit and turnover, extending over seven industries, and including an examination of pre-war and post-war rates of profit, are conclusive in establishing the general rule that income tax is not passed on in higher prices. Any exceptions that may exist—and the Committee does not seem to have been able to find any at all—are stated to be local and temporary, and insufficient to invalidate this general conclusion. As a result of the steep progression of the income tax (the super tax is merely a method of securing this progression) the Committee finds that the savings of the income tax paying class have suffered, particularly in the more wealthy classes. There has been a redistribution of saving power in favour of the moderate and lower incomes. The real evil is, however, emphasised as being the loss of wealth which the war caused. While the Committee thinks that there is a deficiency of national savings of £150 to £200 millions below the pre-war level, it finds no evidence that the recent lowered standard has been inadequate to the actual demand. Interesting calculations are indeed given tending to show that in relation to the anticipated growth of population over the period up to 1941 the provision of capital sufficient to maintain the existing rate of production

and the *status quo* of the standard of living can continue without the least difficulty. The maintenance of these standards, the Committee concludes, is not imperilled by the present scale of direct taxation. It is perhaps partly for this reason that the Committee viewed with little favour the suggestions put forward by the witnesses on behalf of the Accountant Societies for a measure of relief from income tax in favour of sums put to reserve by companies. No such relief, it is said, could be restricted to this sphere; it would have to be extended to private firms, and then it would be difficult to exclude from the relief all private savings. Should a time come, however, when the balance between personal savings of individuals and impersonal savings of companies swings more towards the latter, we think that some such step, despite the arguments of equity against it, may well prove to be necessary in the interests of the community at large.

Looked at as a whole, the present system of taxation in the United Kingdom emerges remarkably well from the ordeal of inquiry to which it has been put. It is acquitted of any serious effects upon the standard of living, upon national savings, or upon the standards of enterprise and business incentive. On the counts of being one of the main causes of the present industrial difficulties, of unemployment, of our shrunken export trade, and of high prices, it is found not guilty. When due regard is paid to the difficult period during which the pre-war system was amplified, strained and re-modelled to meet the emergencies of the war and post-war years, we can only pay a high tribute to the manner in which successive Chancellors of the Exchequer, supported by public opinion and the skilled counsel of their official and unofficial advisers, have steadily adhered to high principles of public finance designed to do the least possible injury to the national economy and to spread the heavy burden most equitably over the whole community.

Professional Appointment.

Mr. A. B. Griffiths, A.S.A.A., until recently Chief Accountant in the City Treasurer's Department, Birmingham, has been appointed City Treasurer and Registrar of Stock to the City of Sheffield.

Incorporated Accountants Golfing Society.

The captain, Mr. W. McIntosh Whyte, and the committee have made arrangements for the Spring Meeting to take place on Thursday, April 7th, on the course of the Automobile Country Club at Epsom. The committee hope that all members of the Golfing Society will participate. Incorporated Accountants in London and the Home Counties who are golfers and would like to support the Golfing Society are requested to communicate with:—Mr. A. T. Keens, Bilbao House, New Broad Street, E.C. 2.

Birmingham and Midland District Society of Incorporated Accountants.

Visit of President of the Society.

On March 4th, the President of the Society, Mr. Thomas Keens, and the Secretary, Mr. A. A. Garrett, by invitation paid a visit to Birmingham to meet the Incorporated Accountants practising and resident in Birmingham and in the Midlands.

The chair was occupied by Mr. J. R. Johnson, President of the Birmingham and Midland District Society, who was supported by Colonel T. E. Lowe, O.B.E., J.P. (Wolverhampton); Mr. D. E. Campbell (Wolverhampton), Member of the Council; Mr. E. T. Kerr, Mr. J. Bridgwater, Mr. J. H. Gent, Mr. S. Henstridge, Mr. A. P. Bardell, Mr. W. E. Wall, Mr. T. Hannibal, Mr. F. W. Picken, Mr. Neville Aspray, Mr. F. M. Hawnt, Mr. C. N. Rowe (Worcester), Mr. F. J. Harper (Shrewsbury), Mr. P. R. Forrest Groves (Shrewsbury), Mr. J. D. Beck, Assistant Hon. Secretary, Mr. G. Horton, Hon. Treasurer, Mr. T. Harold Platts, Hon. Secretary, and a large attendance of members.

The CHAIRMAN briefly welcomed the President of the Society and called upon him to address the members.

ADDRESS BY PRESIDENT.

Mr. KEENS, who was cordially received, expressed his pleasure at being able to meet such a large number of members and to have the opportunity of addressing them. He was glad to see Colonel T. E. Lowe, the doyen of the profession in those parts, and Mr. D. E. Campbell, one of his colleagues on the Council. In referring to the Chairman, Mr. Keens expressed appreciation of the services which Mr. Johnson had rendered, particularly as he assumed the Presidency of the Birmingham Society some years ago at a difficult time.

He desired to remind the members of the great heritage which had come to them in regard to the status of Incorporated Accountants, a status which was confirmed to them by the High Court of Justice over twenty years ago and had been continually recognised by Parliament, public authorities and the commercial interests of the country.

In regard to more recent events, he believed that the International Congress of Accountants held in Amsterdam last July would rank as one of the greatest events in the history of the profession. The position of British accountancy was recognised in a remarkable manner, and the President of the Institute and the President of the Society were members of the Presidency Committees, the members of which in turn took the chair at the sessions. At home, Departments of the Government had requested from the Society evidence and memoranda on accountancy matters, in regard to which he hoped the Council had made some useful contributions.

He desired especially to address himself to the work of the District Societies. He was glad to note a satisfactory improvement in the work for which these Societies were responsible in their own districts. The position of Incorporated Accountants in any particular area was largely conditioned by the work of the members themselves. In one district their educational work had taken an interesting and practical form, as joint meetings of members of the Institute, the Society, the Chartered Institute of Secretaries and the Bankers' Institute were held, which were addressed by prominent members of one or other of those professions. He believed that they in Birmingham desired to extend

their own organisation in whatever way seemed practicable, and he assured them of the co-operation of the Council. The organisation of the Society was centred in London, and the work of promoting their local interests in the Provinces was placed in the hands of the District Societies, who were in a position to advise the Council from time to time. The District Societies provided an admirable opportunity for leadership and organisation, and enabled each member to render service to his own professional body. They were probably aware that a Conference of Representatives of District Societies with Members of the Council was held in London from time to time, and that the Conference was at present considering what means could be adopted to improve in every way the organisation of which their own District Society was a part. Since the war there had been many difficulties to surmount in regard to District Society work, but these had been substantially overcome by the interest which members took in the proceedings of their District Societies and by a realisation that it was through such agencies they were able to keep the name of Incorporated Accountant before the public. This work needed the guiding hand of experienced practitioners, the loyal support of members in the district, and sustained interest on the part of students. He believed they were in a position to carry out the work which the Society demanded of them in Birmingham and to discharge the trust which was in the hands of every Incorporated Accountant. (Cheers.)

Discussion.

Mr. J. R. Johnson addressed the meeting, and supported the observations of the President.

Other speakers included Mr. D. E. Campbell, Mr. T. Harold Platts, Mr. A. P. Bardell, Mr. C. N. Rowe, Mr. A. A. Garrett, Col. T. E. Lowe, Mr. H. Brown, Mr. F. Harper and Mr. R. H. Bridgwater. At the close of the discussion the President replied to the questions raised.

On the motion of Mr. E. T. Kerr, seconded by Mr. A. P. Bardell, it was resolved that a hearty vote of thanks be accorded to the President for his visit to Birmingham and for his Address. The meeting also passed a vote of thanks to Mr. Johnson for his conduct in the chair.

Society of Incorporated Accountants and Auditors.

MEMBERSHIP.

The following additions to and promotions in the Membership of the Society have been completed since our last issue:—

ASSOCIATES TO FELLOWS.

Cornelius, Joseph Chelladurai (Cornelius & Davar), Great Western Building, Apollo Street, Bombay, Practising Accountant.

Craven, Godfrey (Forster & Craven), 28, Deansgate, Manchester, Practising Accountant.

Dean, Walter James (Dean & Son), 18, Market Square, Stafford, Practising Accountant.

Owen, Herbert (Dean & Son), 18, Market Square, Stafford, Practising Accountant.

FELLOW.

Froude, Thomas, F.C.A. (Oscar Berry, Froude & Co.), Monument House, London, E.C.3, Practising Accountant.

ASSOCIATES.

Corder, Clive Sinclair, Clerk to Douglas, MacKelvie & Co., 141, Longmarket Street, Cape Town.

Fennell, William George, Clerk to W. B. Keen & Co., 23, Queen Victoria Street, London, E.C.4.

Ferguson, Herbert, Clerk to Soddy Brothers & Co., 25, Ironmonger Lane, London, E.C.2.

George, Cecil William, Clerk to Martin & Buckler, 186, Wolverhampton Street, Dudley.

Hagley, Frederick, Clerk to Rupert Lindley, 21/22, Prudential Buildings, Bradford.

McAuley, Charles, Clerk to H. Cumming, 7, Winckley Square, Preston.

Mullock, Albert, Clerk to Alfred G. Deacon & Co., Equitable Buildings, 13, St. Ann Street, Manchester.

Naughten, Thomas Edward, Finance Department, Ministry of Labour, Kew.

Niven, Thomas Eric, Clerk to Thomas Smith & Sons, National Bank Buildings, 135, Buchanan Street, Glasgow.

Norris, Lionel Malcolm, Clerk to Evatt & Co., French Bank Buildings, D'Almeida Street, Singapore.

Ormiston, Norman Goodwin, Clerk to T. & J. L. Tunstall & Co., Bewsey Chambers, Warrington.

Pursey, James Shore, Clerk to Leslie D. Malpas, Upper Hinton Chambers, Upper Hinton Road, Bournemouth.

Reid, Charles William, B Sc (Econ.), Exchequer and Audit Department, Victoria Embankment, London, E.C.4.

Roy, Nripendra Krisna, M.Sc., Clerk to Muir, Moody & Co., 20, Newgate Street, London, E.C.1.

Samuels, Colin Arthur, Clerk to Barclay & Butler, 15, Queen Street, London, E.C.4.

Webb, Harold, Clerk to Russell & Co., Local Rees, 189, Parallel Street, Smyrna.

Society of Incorporated Accountants and Auditors.

COUNCIL MEETING.

A meeting of the Council was held in the Council Chamber, 50, Gresham Street, London, E.C., on Thursday, March 24th, when there were present:—Mr. Thomas Keens, President, in the chair; Mr. Henry Morgan, Vice-President; Mr. William Bateson (Blackpool); Mr. D. E. Campbell (Wolverhampton); Mr. W. Claridge, M.A., J.P. (Bradford); Mr. E. Cassleton Elliott (London); Mr. Walter Holman (London); Mr. Richard Leyshon (Cardiff); Sir James Martin, J.P. (London); Mr. C. Hewetson Nelson, J.P. (Liverpool); Mr. James Paterson (Greenock); Mr. W. Paynter (London); Mr. Arthur E. Piggott (Manchester); Mr. G. S. Pitt (London); Mr. J. Stewart Seggie (Edinburgh); Mr. Alan Standing (Liverpool); Mr. Percy Toothill (Sheffield); Mr. F. Walmsley, J.P. (Manchester); Mr. R. T. Warwick (London); Mr. E. W. C. Whittaker, J.P. (Southampton); Mr. W. McIntosh Whyte (London); Sir Charles H. Wilson, LL.D., M.P. (Leeds); Mr. A. E. Woodington (London); and Mr. A. A. Garrett, B.Sc., B.A., Secretary.

Apologies for non-attendance were received from Mr. Arthur Collins (London); Mr. W. H. Payne (London); Mr. Richard Smith (Newcastle-on-Tyne); Mr. A. H. Walkey (Dublin); and Mr. F. Ogden Whiteley, O.B.E. (Bradford).

Gold and Silver Medals, 1926.

It was resolved that awards be made as follows:—

Gold Medal to Mr. James Benjamin Sanderson, Darlington, who took the First Certificate of Merit in the Final examination in May, 1926.

Silver Medal to Mr. Ernest Arthur Kempson, London, who took the Second Certificate of Merit in the Final examination in November, 1926.

It was ordered to be recorded that Mr. Frederick Arthur Tompson, who took the First Certificate of Merit in the Final examination in November, 1926, was disqualified from receiving a Gold Medal under the age limit imposed by the Council.

Conference of Representatives of District Societies with the District Societies Committee.

The Council received a report of a Conference held on March 3rd, when important questions relating to District Society organisation were under consideration: also reports from the respective District Committees. The report was taken into consideration and matters arising were referred to Committees of the Council for further review. A statement was made by the President that during his visits to the District Societies and from reports to hand, he had formed the opinion there had been a marked and satisfactory improvement in the work and activities of the District Societies.

Annual Report and Accounts, 1926.

The Council approved the annual report and accounts for the year 1926, to be presented to the annual general meeting of members to be held at Cordwainers Hall, Cannon Street, London, E.C., on Thursday, May 19th, 1927.

Company Law Amendment.

It was reported that a joint memorandum had been forwarded to the President of the Board of Trade, representing the views of the Institute and Society with regard to certain questions under the forthcoming Bill on Company Law Amendment.

Registration Bill—Irish Free State.

It was reported that this Bill had been introduced into the Senate of the Irish Free State, and was rejected on the Second Reading.

Registration Bill—Northern Ireland.

The Secretary submitted a report that the Joint Committee of Chartered and Incorporated Accountants in Northern Ireland had decided not to proceed with a Registration Bill for Northern Ireland.

The Society's Branches in South Africa.

An advice was received that the Advisory Council for South Africa has now been constituted; also reports as to progress made by the Society's Branches and of meetings of the respective Committees.

Conference of Accountants in Munich, Germany, May 28th to June 1st.

An invitation was received for the Society to be represented at a Conference organised by the Verband Deutscher Bucherrevisoren. It was resolved that the invitation be accepted and that the President and Vice-President be asked to represent the Society.

Autumnal Conference, 1927, Manchester.

A draft programme was submitted and approved.

A number of new members were elected and other important business was transacted.

A Special Meeting of the Council was also held on the evening of March 23rd, when a number of important matters were under consideration.

THE LAW OF ARBITRATION.

In March, 1926, the Lord Chancellor (Viscount Cave) appointed the Hon. Mr. Justice MacKinnon (Chairman), Mr. John Gordon Archibald, Sir Thomas Willes Chitty, Bart., Sir James Martin, F.S.A.A., Mr. Frank Boyd Merriman, K.C., M.P., and Mr. William Norman Raeburn, C.B.E., K.C., to be a Committee to consider and report whether any, and if so what, alterations are desirable in the law relating to arbitration, and in particular to submissions, arbitrations and awards made or held in England and Wales, or the law relating to the effect given in England and Wales to submissions, arbitrations and awards made elsewhere.

Mr. Sidney H. Cotton was added to the Committee subsequently.

The Committee's Report.★

After reciting the terms of their appointment the Committee say:—

We have held eight meetings. At the outset we arranged for a communication to be addressed to various representative bodies who seemed likely to be interested in this subject, inviting them to submit their views to us. Many of them have replied, and we have received and have carefully considered suggestions or proposals from the following bodies:—

The Chamber of Shipping of the United Kingdom.
The City of London Solicitors' Company.
The East Indian Grain and Oilseed Shippers' Association of London.
The Federation of British Industries.
The Federation of Civil Engineering Contractors.
The Federation of Grocers' Associations.
The Fire Offices' Committee.
The General Council of the Bar.
The Hide Shippers' and Agents' Association.
The Incorporated Oil Seed Association.
The International Law Association.
The Law Society.
The Liverpool United General Produce Association, Ltd.
The London Cattle Food Trade Association.
The London Copra Association.
The London Court of Arbitration (London Chamber of Commerce).
The London Flour Trade Association.
The London Oil and Tallow Trades Association.
The Manchester Chamber of Commerce.
The National Association of Corn and Agricultural Merchants.
The Society of Incorporated Accountants and Auditors.

The following received our invitation but did not desire to make any suggestions:—

The Association of British Chambers of Commerce.
The General Produce Brokers' Association of London.
The Institute of Chartered Accountants.
The Liverpool Cotton Association, Limited.
Lloyds.
The National Federation of Corn Trade Associations.

The existing statutory law as to arbitrations in England and Wales is chiefly contained in the Arbitration Act, 1889. There are some additional provisions in sect. 16 of the Administration of Justice Act, 1920, and sects. 31 and 94 of the Supreme Court of Justice Consolidation Act, 1925, and also in some of the Rules of the Supreme Court, *e.g.*, Order XLII, Rule 31A, and Order LXIV, Rule 14.

★ *Published by H.M. Stationery Office. Price 4d. net. The cross headings are not in the original report.*

Amendment of the Law Desirable.

We are agreed that there are various points on which amendments of the existing law and procedure are desirable. In the main the Arbitration Act, 1889, has worked well, but experience has shown that some of its provisions might be improved, and some omissions supplied. Our considerations involve a variety of matters not much connected one with another, and not involving, in most cases, any common principle. We think it is only practicable to deal with them separately, and we do so in the following paragraphs.

In sect. 2 of the Arbitration Act, 1889, and in sub-sects. (*c*), (*d*) and (*e*) of its First Schedule, there are provisions as to the time within which an award shall be made and as to the enlargement of that time. In regard to these we would point out *first* that they have no practical value at all. A careful arbitrator, in our experience, at an early stage, indorses on the submission an extension of time for an arbitrary period (he can make it a century with complete impunity!), and thus avoids any trouble. On the other hand, if a careless arbitrator forgets to go through this ritual, the only result is that a dissatisfied party has a chance of seeking to set aside an award on the purely technical ground that it was made out of time.

But *secondly* there is in the present system, by which the time for making an award is under the control of the arbitrator or arbitrators or umpire, a serious disadvantage. A party to a submission, who has no real defence to the claim made on him, may, and as we are informed often does, appoint his arbitrator, where two are to act, with a request to him that he will delay matters as much as possible, a request which is only too easily complied with.

We think that the prompt hearing of arbitrations, and the avoidance of delay, would be best secured if these three sub-sects. (*c*), (*d*) and (*e*) of the First Schedule of the Act of 1889 were repealed, and in place of them there were substituted a provision to the following effect:—

> "An arbitrator, or arbitrators, or an umpire shall proceed with the arbitration, and shall make his or their award with all reasonable dispatch. If he or they fail to do so either party to the submission may apply to the Court or a Judge for leave to revoke the submission, or for an order appointing an arbitrator or an umpire in place of one so in default. Any arbitrator or umpire removed from his office pursuant to such an order shall have no claim for any remuneration for any work he may have done."

Almost the only provision for what we may call interlocutory proceedings in an arbitration is in sect. 18 (1) of the Arbitration Act, 1889, whereby the Court or a Judge may order the issue of a subpœna to compel a witness to attend before an arbitrator. We are satisfied that there are many other matters in which orders of a Master might properly be made to assist in the proper conduct of arbitrations in the same way as they are made in litigation. For example, an arbitrator cannot make an order for security for costs (*cf. In re Unione Stearinerie Lavza* (1917) 2 K.B., 558). We therefore suggest that provision should be made whereby a party to a submission may apply to the Court or a Judge for an order or orders:—

(*a*) For the examination of a witness or witnesses before a special examiner either in this country or abroad;

(*b*) For discovery of documents and interrogatories;

(*c*) For evidence to be given by affidavit in the same circumstances as in litigation;

(*d*) For another party to give security for costs in the same way as a litigant;

(*e*) For the inspection, or the interim preservation, or the sale of goods or property, the subject matter of the arbitration;

(*f*) For an interim injunction, or similar relief;

(*g*) For directing an issue by way of interpleader between two parties to a submission and the relief of a third party desiring so to interplead;

(*h*) For substituted service of notices required by the Act; this should include a provision for the service upon an agent in this country of a party resident abroad—a thing not included in the ordinary machinery of the Courts under the name of "substituted service." Any such order should specify the time within which such a notice shall be complied with, having regard to the course of post to the residence of a foreigner concerned, &c.

It is obvious that applications of the sort contemplated in paragraph 6 would often conveniently be made to a district registrar of the High Court. A district registrar in fact only deals with matters arising out of a writ issued out of his District Registry. It would be well therefore to provide, as an addition, (*a*) that where both parties to a submission reside or carry on business in the district applications of this sort may be made to the district registrar, and (*b*) that by consent of both parties to a submission such applications may be made to any district registrar.

One matter which has for some years given rise to considerable discussion and comment is the difference, both in effect and in procedure, between a case stated for the opinion of the Court under sect. 19 of the Arbitration Act, 1889, and an award stated in the form of a special case under sect. 7.

With a case stated under sect. 19 there is no appeal from the decision of opinion of the High Court (*In re Knight and Tabernacle Company* (1892) 2 Q.B., 613. That was decided on the construction of sect. 19 of the Judicature Act, 1873, which is now repealed and replaced by sect. 31 (1) (i) (v) of the Supreme Court of Judicature Act, 1925, but the result of the latter provision, though in different language, seems to be the same). With a case stated under sect. 7 there is an appeal, without leave.

The apparent disadvantage of there being no appeal in a case stated under sect. 19 may be shown by reference to *British Westinghouse Company* v. *Underground Company* ((1912) App. Cas., 673) and to the lamentable succession of proceedings in *The Olympia Company* v. *Produce Brokers Company* ((1915) 1 K.B., 233; (1916) 2 K.B., 321; (1917) 1 K.B., 320; (1916) 1 App. Cas., 314). And the incidental difficulty of deciding whether a case is really stated under sect. 7 or under sect. 19 is shown by *Owners of s.s. Lord* v. *Newsum* ((1921) 2 App. Cas., 528).

Power to State Award in the Form of a Special Case.

There are two other matters to be remembered in this connection. *First*, that under sect. 19 the Court may order a case to be stated for the opinion of the Court, but the Court has no power to order an award to be stated in the form of a special case under sect. 7. And *secondly*, by the practice of the High Court a case under sect. 19 is heard by a Divisional Court (nowadays a Court of three Judges, taking the Crown Paper), whereas a case under sect. 7 is heard by a single Judge taking what is called the Special Paper.

As to the second of these points, for the two forms of cases to be dealt with in a uniform manner seems to involve merely a change of practice, or the arrangement of business. A similar change of practice is that formerly when there was in the same arbitration (*a*) a special case under sect. 7

and (*b*) a motion to set aside the award and special case, then (*a*) was heard by the single Judge taking the special paper, and (*b*) was heard by a Divisional Court. But both could be, and now are, heard by the single Judge. (See *Produce Brokers Company* v. *Blythe Green & Co.*, 21 T.L.R., 419; and *Cowan* v. *Rymer* (1919) W.N., 140.)

In regard to these matters we have anxiously considered various suggestions. Our considered recommendations are as follows:—

(*a*) We think the Court should be given power to order an award to be stated in the form of a special case under sect. 7 in addition to, and as an alternative to, its power to order a consultative case under sect. 19.

(*b*) We think that the right of appeal from the decision of a case stated under sect. 7 should remain as at present, and that by leave of the Court which hears a case stated under sect. 19 or by leave of the Court of Appeal there should be an appeal to the Court of Appeal, but only by such leave.

(*c*) We think that, as a matter of practice, a case stated under sect. 19 should also be heard, like a case stated under sect. 7, before a single Judge.

We have been made aware that considerable dissatisfaction exists as regards the delay in hearing special cases, whether stated under sect. 7 or sect. 19. This to some extent arises from a difficulty in getting them set down, a matter which we discuss later. But there is no doubt some delay after they are set down and before they are heard. Cases under sect. 7 are collected together to constitute what is called "The Special Paper," and a batch of them is heard by a Judge taking that paper once a term. We think that with cases stated under sect. 7 in commercial arbitrations (and it is in regard to these that complaints are chiefly made) a remedy could be provided by permitting a party to apply to the Judge taking the Commercial List to transfer the case to his Court and appoint a day for hearing. In the present state of business in the Commercial Court a speedy hearing could usually be obtained. Such special cases are essentially fit for hearing in that Court, but the procedure has not hitherto been adopted to provide for it.

With cases stated for the opinion of the Court under sect. 19 it is often the practice of the Court merely to answer the question or questions put to it by the case, sometimes by a mere "Yes" or "No." Responsible opinion in the City has pointed out to us that in some cases, where questions of common forms of contract or recurrent commercial problems are involved, a more reasoned answer would be of assistance to those engaged in the trade. This is perhaps a matter on which we cannot very properly make a recommendation, but we record the opinions we have received, and so far as we are concerned recognise them as being reasonable.

Enforcement of Award.

By sect. 12 of the Act of 1889 an award may be enforced in the same manner as a judgment. By sect. 11 the Court has power to set aside an award in certain circumstances, and by Order 64, Rule 14, an application to set aside an award may be made at any time within six weeks of its publication. In practice the combined effect of these provisions has often a very serious result. On an application under sect. 12 to enforce an award the respondent constantly avers that he intends to move to set aside the award, and it is difficult for the Master to abstain from postponing the application to enforce the award until the fate of this suggested motion is known. In practice in far too many cases (notwithstanding the provision in Order 42, Rule 31A) this results in the judgment debtor, even if he has no real ground of complaint against the award, getting up to six weeks' stay of execution, and much longer if he sets down a motion which he never intends to move.

We were also assured, by a body which should know what it was talking about, that as a matter of practice a party is not allowed to set down a case stated under sect. 7 until the six weeks allowed by Order 64, Rule 14, have expired. Upon inquiry at the Crown Office we find that the statement is incorrect. The practice is that a case can be set down at any time, but it is not brought on for hearing until ten days from the date of entry, or six weeks from the date of the award, whichever time is later. The latter provision is intended to give an opportunity for the entering of a motion to set aside the award at any time within the six weeks allowed for that. If an application be made, however, for the case to be heard before the expiration of the six weeks, that is permitted provided the other side say that they are not going to set down a motion to set aside the award.

Opportunities for Delay.

In our opinion these opportunities for delay on the part of an unsuccessful party ought to be diminished. We think that the time for moving to set aside an award under Order 64, Rule 14, should be cut down at the least to fourteen days, but subject to the power of the Court or a Judge to enlarge that time in cases where it would be just to do so. And we also think that the Court or a Judge should have power, if it or he thinks fit, to order a respondent to an application under sect. 12 to give security for the amount awarded, by payment into Court or otherwise, if he seeks to postpone the making of an order until he has moved to set the award aside.

We also suggest an amendment in the wording of sect. 12 itself. It provides that an order may be made for enforcing an award in the same manner as a judgment. But this order does not create a final judgment, and consequently a bankruptcy notice cannot be founded upon it. (See *In re a Bankruptcy Notice* (1907) 1 K.B., 478.) We think that sect. 12 should be amended so as to provide that a final judgment in the terms of an award may be entered. We suggest that, in addition to the effect as regards bankruptcy proceedings, this change may facilitate the enforcement in other countries of awards made in England. Our attention, for example, was called by one of our correspondents to the asserted fact that there is at present no means of enforcing in Scotland an award made in England. We do not know if this is the fact, but we conceive that an English judgment may be more readily enforceable in other countries than an order for enforcing an award in the same manner as a judgment.

One practical difficulty as to enforcing an award sometimes arises with an award stated as a special case under sect. 7. An arbitrator or umpire who intelligently knows his business, when drafting a case under that section, makes his award according to his own view, and then provides for an alternative award to take its place if the Court, on the facts he states, finds that alternative award to be more correct in law. If, with such a case so stated, the other party does not think it worth his while to set it down for argument, the arbitrator's or umpire's substantive award can be enforced. But sometimes a less intelligent arbitrator or umpire takes a less convenient course. He sets out two alternative awards and leaves it to the Court to decide which is correct in law. In such a case there is no effective award until the Court has heard the case, and however submissive may be the unsuccessful party, his opponent can get no effective award until he has set down the case and had it heard, after inevitable delay.

It is perhaps difficult to deal with this matter by any positive enactment that a special case stated under sect. 7 must be in a particular form, and still more difficult to provide a satisfactory sanction for such an enactment. But we think it would be desirable that a schedule of the Act should provide typical forms of (*a*) an ordinary award, (*b*) a case stated under sect. 19, and (*c*) a case stated under sect. 7. We believe such forms would be of material assistance to arbitrators and umpires, and if they were properly drafted, would in all probability be used almost universally. The same schedule, we think, might also usefully set forth a set of simple rules for the guidance of arbitrators in the conduct of proceedings.

The death or bankruptcy of a party to a submission at present seems to revoke the submission, and the personal representatives of a deceased party, or the trustee in bankruptcy of a party, do not appear to be included in the words "any person claiming through or under him" in sect. 4 of the Act of 1889.

We think that an amendment should provide (*a*) that these words in sect. 4 shall include the trustee in bankruptcy of a party, and the personal representatives of a deceased party to a submission, and (*b*) that the death or bankruptcy of a party to a submission shall not revoke it.

The difficulty that arose in *Smith* v. *Nelson* (25 Q.B.D., 545) has been remedied by sect. 16 of the Administration of Justice Act, 1920. The case of *United Kingdom* v. *Houston* (1896) 1 Q.B., 567, illustrates another difficulty that may arise in the case of a reference to three arbitrators, where the submission omits to say that the decision of two of them shall be binding.

Having regard to a later passage in our Report we think there should be a provision that where a submission provides for the appointing of an arbitrator by each of the parties, and a third arbitrator by the two so appointed, the third arbitrator should be deemed to be and have the powers of an umpire. But it might be well to add that in the case of a reference to three arbitrators appointed otherwise than as above the submission shall be deemed to include a provision that the award of any two of them shall be binding.

What is Misconduct?

Sect. 11 of the Act of 1889 speaks of an arbitrator or umpire having "misconducted himself." When a motion is made under that section it is very common to hear counsel disavow any suggestion of turpitude, and to allege only "technical" misconduct. But we believe that laymen whose awards are impugned under the section feel some grievance from the phrase that it employs. We suggest that the section, or its equivalent, might well use the phrase (in both sub-sections) "has misconducted the proceedings" in place of "has misconducted himself."

Two Arbitrators and an Umpire.

The Arbitration Act, 1889, very properly provides that unless the submission otherwise provides, the reference shall be to a single arbitrator. Inveterate practice, however, induces people to provide for two arbitrators, one to be appointed by each party, and for an umpire to be appointed by the arbitrators. In a great many submissions (*e.g.*, by the arbitration clause in many insurance policies), it is common to add that the umpire shall sit with the arbitrators from the beginning, and not, as the Act contemplates, only assume his office when they have agreed to differ.

This system has grave practical results, often in the way of delay, invariably in regard to expense. For arbitrators are only too often selected as partisans or advocates who are not likely to agree, and perhaps are not intended to do so. It is sometimes desirable that the arbitrators should sit with the umpire. But we are all of us familiar with the experience (which occasionally happens), that the arbitrators are mere passengers in the boat, who give no real assistance to the umpire, and whose sole reason for attending appears to be to inform the umpire at the conclusion of *his* labours of the fees which they desire him to include in the award on their behalf.

So unsatisfactory and wasteful is this system that we are convinced that its continued and widespread use is mainly due to two causes, *first*, the desire of the parties, by the agency of the arbitrators, to procure the appointment as umpire of a competent and impartial person, and *secondly*, the desire to employ the arbitrators as advocates of their respective causes before the umpire.

Not unconnected with this topic is another upon which we have received a good many representations. There is at present no very practical means of controlling the amount of fees which arbitrators and umpires can require to be paid by a party who desires to take up an award, and this tends to aggravate the expensiveness of arbitrations, especially in cases where two arbitrators and an umpire have acted throughout the proceedings.

Evils to be Mitigated.

We are agreed that the evils discussed in the last three paragraphs ought to be mitigated, and after very careful consideration, and the rejection of various alternative proposals, we think that the Act should contain provisions to the following effect:—

(*a*) Where a submission provides for the appointment of two arbitrators, who are to appoint an umpire, then it shall be the duty of the arbitrators to appoint the umpire immediately after they are themselves appointed. If they fail to do so either party to the submission may apply to the Court or a Judge to appoint an umpire.

(*b*) At any time after the appointment of the umpire either party to the submission may apply to the Court or a Judge for an order that notwithstanding anything to the contrary in the submission the umpire shall henceforth act as sole arbitrator. If that be ordered the arbitrators shall be discharged, but it shall be competent for them to appear as witnesses or to act as advocates in the arbitration.

(*c*) A party to a submission may apply to the Court or a Judge for the taxation of the fees made payable by an award; he may have an order for delivery to him of the award upon paying into Court, to abide taxation, the fees demanded for its delivery; no taxation or reduction of such fees shall be allowed if they are in accordance with any agreement between the arbitrator or umpire and the party applying; and the arbitrator or umpire, taxation of whose fees is thus applied for, shall be entitled to appear and be heard.

(*d*) The provision for resort to a district registrar, which in another connexion we have recommended in paragraph 7 above, should also be made applicable in this sort of application to the Court or a Judge.

Interim Award.

At present an arbitrator, or umpire, has no power, unless authorised by the submission, or subsequent agreement of the parties, to make an interim award. In many cases it is desirable that he should be able to do so, and in some cases

one of the parties may not be willing to give him such authority—*e.g.*, where one party clearly owes the other a large sum but there is a dispute as to some minor matter in their dealings. An interim award may also be very useful in order to deal with liability, and with a postponement of the inquiry into damages.

We recommend that an arbitrator or umpire should be given power to make an interim award or awards, and also power to state such an interim award in the form of a special case under sect. 7 of the Act.

At present it is at least doubtful whether an arbitrator or umpire can make an award ordering any sort of specific performance. We think that he should at any rate be given the power to order the delivery of specific goods under sect. 52 of the Sale of Goods Act, 1893, against payment of their price. It is perhaps a matter of policy, but we see no reason why he should not also be given power to order specific performance of a contract by the delivery of any property other than land or money in any case in which the Court might lawfully do so.

We have received many suggestions that an arbitrator should be entitled to award interest on the amounts found by him to be due, and that an award should carry interest from the date when payment under it is due.

This involves a point in which commercial opinion and practice has long been at variance with the statute law, and incidentally involves the larger question whether the limited operation of sects. 28 and 29 of the Civil Procedure Act, 1833, ought not to be enlarged so that all debts and claims for damages should carry interest from the time when they accrue.

It is a curious fact (and not, we think, widely understood) that in the Admiralty Division this result is already secured by a mere rule of practice. (See "*The Gertrude*," 12 P.D., 204; 13 P.D., 105; *Smith* v. *Kirby*, 1 Q.B.D., 131; "*The Kong Magnus*" (1891) P., 223.)

It may be beyond the scope of our reference to discuss this question. In our view the time has long ago arrived when the common or statute law should have been amended so as to accord with the Admiralty rule of practice. But in any case we think that provision should be made that the amount payable under an award should carry interest from the date when the award is made.

Submission Made Abroad.

A doubt appears to exist, and to be widely entertained, whether a submission made abroad is a submission within sect. 1, and elsewhere, of the Arbitration Act, 1889. We think this is a mistaken view, and such cases as *Austrian Lloyd Company* v. *Gresham Company* ((1903) 1 K.B., 249) and *The Cap Blanco* ((1913) P., 130) seem to support us. But in view of the doubt we think the definition of "submission" in sect. 27 might be enlarged so as to read "means a written agreement wherever made." It might be well to add that "arbitration" means any proceedings held pursuant to a submission, and that "arbitrator" or "umpire" means any person acting as such pursuant to a submission. It would follow that clauses, *e.g.*, as to ordering the examination of witnesses before an examiner, may apply in aid of what we may call a foreign submission.

We would add that if the Act applies, or is clearly made to apply to a foreign arbitration, its provisions about enforcing an award would equally apply to a foreign award. In any case an action on a foreign award is and always has been perfectly feasible. For a submission is a contract of which an implied term must be a promise to comply with an award that is duly made; and one who is within the jurisdiction of the English Court can be sued upon his contract, or for its breach, as upon any other contract.

For these reasons we see little or no reason to consider the last part of our terms of reference—"the law relating to the effect given in England and Wales to submissions, arbitrations and awards made or held elsewhere."

There are, however, one or two minor matters of practice that affect the enforcement of awards against foreigners, or by them. The Court or a Judge should have power to order service of notice of an application to enforce an award as a judgment upon the agent of a foreign party who has represented him in the conduct of an arbitration in this country. And if an action be brought upon an award (wherever made), leave to serve the writ out of the jurisdiction should be made possible by an amendment of Order XI, Rule 1. It is probable that a writ to enforce an award could be made the subject of summary proceedings for judgment under Order XIV, but this is not as clear as it might be, and should be secured by an amendment of that order.

A good many of those who have submitted memoranda to us have suggested that there should be statutory power given to the Courts to relieve people from various kinds of hardships imposed upon them by the terms of submissions to which they have unwittingly or unwillingly agreed. To interfere with, and alter, the contracts people have made may seem a doubtful policy, but it should be remembered that the vast majority of submissions to arbitration are contained in the printed arbitration clause in printed forms of contract, which cannot be carefully examined in the transaction of business, and alteration of which it would be difficult for most people to secure. We should certainly be averse to any proposal to give relief to anyone who had entered into a submission of a dispute after it had arisen. But we suggest that, as regards common forms of submission in printed forms, it might be sound policy to create a power to modify unconscionable provisions.

Existing Hardships.

As examples of the sort of hardship to which we refer we may instance the following:—

(*a*) It seems to be increasingly common for forms of contract for the sale of commodities to stipulate in the arbitration clause that a claim for arbitration must be put forward within a limited time, or it shall be conclusively barred. Cases in which such clauses have been recently considered are *Ford* v. *Compagnie Furness* ((1922) 2 K.B., 279) (three months); *Atlantic Company* v. *Dreyfus* ((1922) 2 App. Cas., 250) (three months); *Pinnock* v. *Lewis & Peat* ((1923) 1 K.B., 690) (fourteen days); *Ayscough* v. *Sheed Thomson & Co.* (30 Com. Cas., 23) (three days). Though it might be difficult to show hardship with a limit of three months, it must often be easy if the limit is only three days.

(*b*) There used to be a common provision in the arbitration clause in insurance policies that in any event each side should bear his own costs. This is now, we believe, not much used for new policies, but survives in old policies which have been constantly renewed. The opportunity to use its effect in order to drive a claimant to compromise, rather than continue the proof of items of his claim at his own expense, is obvious.

(*c*) Several of our correspondents have referred to the common practice by which in building and engineering contracts contractors are required to tender upon, and agree to, a form of printed contract by which

all disputes are to be decided by an architect or engineer who is in the employ of the other party, and very often of one whose own acts or requirements on behalf of his employer may create the dispute which must be referred to his decision.

(*d*) It is not uncommon for an arbitration clause to provide that in no circumstances shall either party ask for a special case for the opinion of the Court, or for the making of an award in the form of a special case.

As this seems to be a matter of policy, rather than of the amendment or clarification of the existing law, we feel that it is hardly within our province to make positive recommendations. But we suggest that, as a matter of policy, it should be considered whether provision should not be made—

(*a*) That, where an arbitration clause in a common form of contract provides that a claim shall be barred unless arbitration be claimed in a limited time, it should be open to either party to apply to a Judge for an order that this time provision should be enlarged, and that a Judge, if satisfied that in the circumstances of the case the time limit provided creates an unreasonable hardship, shall have power to order that the contract be varied by enlarging the time.

(*b*) That a provision in a common form of arbitration clause that each side shall pay his own costs shall be void, and that the arbitrator or umpire, notwithstanding such provision, shall have full power to order either party to pay the costs.

(*c*) That where a particular person has been named or designated in a submission as arbitrator either party may apply to a Judge, and if he satisfies the Judge that such person by reason of his relation towards the other party or his connection with the subject matter of the dispute, may not be capable of complete impartiality, the Judge, if he thinks fit, may make an order removing such arbitrator and appointing another in his place.

(*d*) It seems to be a doubtful question whether a clause that neither party shall ask for a special case is or is not void as being against public policy. If it were desired it would be easy to insert a provision that it is to have no effect.

There is one other matter somewhat akin to these. The common provision (especially in insurance policies) that the obtaining of an arbitrator's award shall be a condition precedent to the right to bring an action is one to which in most cases no serious objection arises. But if a party to such a submission is charged with fraud by the other party the clause may be still effective to compel him to have the charge investigated by an arbitrator. We suggest that it is perhaps desirable to provide that where, with such a clause, a party to it is charged with fraud by the other party, he may apply to a Judge for an order that the clause shall as to this issue be of no effect, so that he may have it determined by an action.

It will be noticed that we speak of resort to a Judge and not to the Court or a Judge in all the suggestions in the last two paragraphs.

Sect. 23 of the Arbitration Act, 1889, ends with the words—"nothing in this Act . . . . shall affect the law as to costs payable by the Crown." We are informed that in a recent arbitration an award against the Crown for a very large sum was made, but as a result of this provision the successful party had to bear his own costs, and also to pay the fees of the arbitrator, and even to bear the cost of hiring the room in which the lengthy proceedings were held. We are assured and believe that there is a strong feeling in the minds of many serious people that this result was not satisfactory. If it is within the scope of our reference we have to say that we agree with this opinion, and think that the section or the practice should be amended.

A New Act Desirable.

We have now concluded our recommendations as to the amendments that seem to us desirable in the existing law of arbitration, or are possible if the policy of making them should find favour. We would suggest finally that if these amendments, or any substantial number of them, be made, it would be easier and much more satisfactory to repeal the Arbitration Act of 1889, and re-enact it in an amended form, rather than to pass a mere amending Act. The amendment already provided by sect. 16 of the Administration of Justice Act, 1920, would of course be incorporated in the new Act, and that section repealed. On the other hand, sects. 13 to 17 of the Act of 1889, dealing with references by order of the Court to an official or special referee should be omitted from the new Arbitration Act. Those sections, or the more material of them, have been re-enacted in the Supreme Court of Justice Consolidation Act, 1925, and their subject matter has really nothing to do with arbitration proper, but with the procedure of the Courts as to the method of trying actions, or delegating their trial.

In the course of our inquiry our attention has been drawn to some matters that are not strictly within our terms of reference, but are connected with arbitration, and seem worthy of record. We draw attention to them in the following paragraphs.

Sect. 119 of the Companies Act, 1908, requires a company's execution of a submission to arbitration to be under seal, and also seems to provide that the Railway Companies Arbitration Act, 1859, shall apply. Companies are of course parties every day to thousands of contracts containing arbitration clauses which they never seal; and so far as we know no one has ever relied on sect. 119 of the Act of 1908 to avoid the submission. We suggest that obviously in the next Companies Act a company should be empowered to make a submission by mere signature and as by a contract under sect. 76 of the Act of 1908.

It has been pointed out to us that the Arbitration Act, 1889, does not apply to arbitrations under the Agricultural Holdings Act, 1923, and that under the rules as to arbitrations in the Second Schedule to that Act there is no power or machinery under which a subpœna can issue to compel a witness to attend.

Our attention has been called to a point that arises under the Arbitration Clauses (Protocol) Act, 1924. Sect. 1 of that Act in relation to a submission to which the protocol applies deprives the English Court of any discretion as regards granting a stay of an action. It is said that cases have already not infrequently arisen, where (*e.g.*) a writ has been issued claiming the price of goods sold and delivered. The defendant has applied to stay the action on the ground that the contract of sale contains an arbitration clause, but without being able, or condescending, to indicate any reason why he should not pay for the goods, or the existence of any dispute to be decided by arbitration. It seems absurd that in such a case the English Court must stay the action, and we suggest that the Act might at any rate provide that the Court shall stay the action if satisfied that there is a real dispute to be determined by arbitration. Nor would such a provision appear to be inconsistent with the protocol.

There are certain statutes which refer to the bringing of a suit, or taking legal proceedings, or the like, as affecting rights and liabilities. Instances are as follows:—

(*a*) Sect. 496 of the Merchant Shipping Act, 1894, which deals with deposits of freight with a wharfinger,

provides in sub-sect. (3) that at the expiration of 30 days "unless legal proceedings have in the meantime been instituted by the shipowner," &c.

(*b*) Carriage of Goods by Sea Act, 1924, Schedule, Article III, Rule 6, provides that all liability shall cease "unless suit is brought within one year," &c.

(*c*) Sect. 3 of the Limitations Act, 1623, speaks of "actions of debt . . . . being commenced and sued," &c.

To start arbitration proceedings is certainly within the spirit, but not the letter of this sort of provision. It might be well to provide in the suggested new Act (*a*) that when a party to a submission gives written notice claiming arbitration to the other party he shall be deemed to institute arbitration proceedings, and (*b*) that the institution of arbitration proceedings shall be deemed to be the institution of proceedings within sect. 496 of the Merchant Shipping Act, 1894, or the bringing of suit within the rule of the Act of 1924, or the commencement of an action within the Act of 1623. There may perhaps be similar provisions in other Acts of which we are not at present aware.

[The report bears the signatures of all the members of the Committee.]

Obituary.

HERBERT ALLNUTT.

We regret to announce the death of Mr. Herbert Allnutt, F.S.A.A., a partner in the firm of Messrs. Allnutt, Bradfield & Co., Incorporated Accountants, 17/18, Basinghall Street, London. Mr. Herbert Allnutt was admitted an Associate of the Society on July 20th, 1905, having taken honours in the Final examination of that year, and became a Fellow on November 12th, 1919. At the time of his death he had not reached his 43rd birthday, and although for some time past his health had been unsatisfactory his decease was not anticipated. The senior partner in the firm of Messrs. Allnutt, Bradfield & Co. is Mr. Walter Allnutt, F.S.A.A., the late Mr. Herbert Allnutt's father, who is one of the few remaining original members of the Society.

REGINALD ERNEST GORDON DOVEY.

We have received with regret the notification of the death of Mr. Reginald Ernest Gordon Dovey, of the firm of Messrs. Clarke, Dovey & Co., of Cardiff and Swansea. Mr. Dovey was admitted an Associate of the Society in October, 1914, and a Fellow in January, 1922. Mr. Dovey served with his Majesty's Forces throughout the war, and was well known in the business and public life of South Wales.

ALFRED MILLIGAN SEVERS.

We regret to state that amongst those killed in the recent railway accident at Hull was Mr. Alfred Milligan Severs, who had been an Associate of the Society since the year 1910. For a long period he held an appointment as an accountant in the service of the Corporation of the City of Hull. To his widow and family we tender our sincere condolence in their sudden bereavement.

Sir Stephen Henry Molyneux Killik, J.P., has been elected Alderman for Broad Street Ward in the Corporation of the City of London, which position he is entitled to hold for life, and which also makes him a permanent magistrate of the City. As Sir Stephen has already served the office of Sheriff he is eligible for election as Lord Mayor at a future date. Sir Stephen Killik is in business as a stockbroker, and is a member of the Committee of the Stock Exchange. In his earlier days he was identified with the accountancy profession, and has been a member of the Society of Incorporated Accountants and Auditors since 1895, and a Fellow since 1897.

ASSURANCE COMPANIES' ACCOUNTS.

The Board of Trade Committee presided over by Mr. Justice Clauson has now issued its Report. It is in two parts, the first containing the general observations of the Committee, and the second a draft Assurance Undertakings Bill.

Accounts and Returns.

The Committee's observations under this heading are as follows:—

41.—*Accounts and Returns.*—Sect. 9 of the Act, as to audit, is in substance re-enacted by Clause 7 of the Bill. The important provisions contained in sects. 4, 5, 6 and 7 of the Act, and Schedules 1 to 5 are re-enacted with very extensive modifications by Clauses 8 and 9 of the Bill and Schedules 2 to 6. It is convenient to note the following points:—

(*a*) The normal financial year is to run from January 1st to December 31st;

(*b*) Notwithstanding that some difference of actuarial opinion is disclosed by the evidence as to the value of the 5th Schedule return (now represented by the 6th Schedule to the Bill) the Committee recommend the retention of that return with the modifications appearing in the 6th Schedule to the Bill. It is argued that the preparation of the elaborate data to be furnished in that return involves labour and expense disproportionate to the value of it, and that the soundness or otherwise of the actuarial position of a company can be tested by competent experts without the aid of this return. The Committee are, however, not satisfied that a sufficient case has been made for abolishing the duty of making such a return, and they believe that the return is important not only for the information furnished, but for the security it indirectly affords against loose methods of business. Provisions are proposed in Clause 8 (8) to enable modifications to be made by Order in Council as to returns. This will give a very desirable elasticity to these provisions, while the frame of the clause dealing with this matter will, in the opinion of the Committee, protect the companies from any danger of hasty or ill-considered modifications being made. Clause 8 (7) (which supersedes sect. 22) enables the Board of Trade to temper the requirements of the Bill to the peculiar circumstances of any particular company.

42.—A comparison of Schedules 1 to 5 of the Act with Schedules 2 to 6 of the Bill will show that the Committee propose that the accounts and returns to be furnished shall, in future, be rendered in greater detail than was required by the Act. The uniform presentation of this detail in the manner indicated in the Schedules will furnish valuable protection to the public without imposing any undue burden upon the offices. The Committee desire to draw particular attention to the following points:—

(i) Any combined balance-sheet or combined revenue account is to be so framed as to minimise the chance of its character and meaning being misinterpreted. (Second Schedule, Part I, Regulation 3; and Fourth Schedule, Part I, Regulation 3);

(ii) Guarantees are to be stated. (Second Schedule, Part I, Regulation 4);

(iii) Foreign deposits are to be mentioned, and if forming part of a statutory fund are to be stated in detail. (Second Schedule, Part I, Regulation 5);

(iv) The basis of the value of the assets is to be clearly set out and certified. (Second Schedule, Part I, Regulations 6—9);

(v) Shareholders' capital will be set out so as to show the amount of any uncalled capital. (Second Schedule, Form (A));

(vi) If any loans or other amounts due from the insurer are secured by deposits of some of the insurer's securities the facts must be stated. (Second Schedule, Form A, Note (*d*));

(vii) Contingent liabilities are to be set out. (Second Schedule, Form A, Note (*f*));

(viii) Investments in, and loans to, controlled companies are to be dealt with specially. (Second Schedule, Form A, Notes (*g*) and (*i*));

(ix) Amounts due from directors and officials (unless fully secured) must be shown separately. (Second Schedule, Form A, Note (*j*));

(x) The profit and loss account will, in future, be in two parts, the first showing the results of the year, and the second (Appropriation Account) will show the amounts, if any, of dividend, and any other allocations of profits. (Third Schedule, Forms B and C);

(xi) The provisions of the Fourth Schedule, Part I, Regulation 6, will make it necessary to exclude "Not taken up" policies from the statement of new insurances;

(xii) "Group insurance" is to be separately stated. Fourth Schedule, Part I, Regulation 6; Fifth Schedule, Form I, Note 2; and Sixth Schedule, Part II, Paragraph 6;

(xiii) Provision has been made under Part II, C of the Fifth Schedule for statements in respect of Continuous Disability Business; and provision has been made under Part III for an "Abbreviated Abstract" for use by companies which make annual valuations.

The relative clauses in the suggested Bill are:—

ACCOUNTS AND PERIODICAL RETURNS.

7.—*Audit of Accounts.*—The accounts of every insurance undertaking shall, unless they are subject to audit in accordance with the provisions of the Companies Acts, 1908 to 1917, or the Companies Clauses Acts, 1845 to 1889, relating to audit, be audited annually in such manner as may be prescribed.

8.—*Balance-Sheets, Accounts, Abstracts and Statements required to be prepared.*—(1) Every insurer shall as at December 31st in every year prepare:—

(*a*) In accordance with the regulations contained in Part I of the Second Schedule to this Act, a balance-sheet in the form set forth in Part II of that Schedule; and

(*b*) In accordance with the regulations contained in Part I of the Third Schedule to this Act, profit and loss accounts in the forms set forth in Part II of that Schedule, except that it shall not be necessary to prepare such profit and loss accounts where the insurer carries on insurance business of one class only or maintains an Amalgamated Statutory Fund in respect of all the insurance business carried on by him, if he carries on no other business; and

(*c*) In accordance with the regulations contained in Part I of the Fourth Schedule to this Act, a revenue account in the form or forms set forth in Part II of that Schedule applicable to any class of insurance business carried on by him:

Provided that any insurer carrying on insurance business at the commencement of this Act who prepared the balance-sheet and accounts required by the Act of 1909 or the Act of 1923 as at a date other than December 31st, may be permitted by the Board to continue to prepare the balance-sheet and accounts required by this section as at such other date as aforesaid, during such period, not exceeding five years from the commencement of this Act, as the Board may allow.

(2) Every insurer carrying on life business, annuity business, continuous disability business, capital redemption business, or industrial assurance business, shall once in every five years cause an investigation to be made by an actuary into the financial condition of the insurance undertaking carried on by him in respect of every such class of business, including a valuation of his liabilities in respect thereof; and shall cause to be prepared, in accordance with the regulations contained in Part I of the Fifth Schedule to this Act, abstracts of the report of the actuary in conformity with the requirements of Parts II A, II B and II C of that Schedule respectively applicable to any such class of business carried on by the insurer.

In the case of an insurer carrying on, at the commencement of this Act, business of a class in respect of which an actuarial report and abstract was required by the Act of 1909 or the Act of 1923 to be made and prepared, the first investigation and abstract required by this sub-section shall be made and prepared in respect of all classes of business carried on by an insurer to which this sub-section applies, not more than five years after date as at which the last actuarial report and abstract was made and prepared in accordance with the provisions of the Act of 1909 or the Act of 1923 in respect of any class of business carried on by him, or if, by reason of his not having begun to carry on any such class of business until a date less than five years before the commencement of this Act, the insurer has made no such actuarial report and abstract as aforesaid, then, not more than five years after he began to carry on such a class of business.

(3) Subject as hereinafter provided the like abstracts as are required by the last foregoing sub-section to be prepared once in every five years shall be prepared at any other time when there is made into the financial condition of such an undertaking as aforesaid an investigation with a view to the distribution of profits, or an investigation of which the results are made public:

Provided that where an insurer satisfies the Board that an investigation of which the results are made public is made annually into the financial condition of the insurance undertaking carried on by him in respect of any such class of business as aforesaid, then, so long as in making the annual investigation there has been no substantial change in the basis of valuation since the last abstract was prepared in accordance with the foregoing requirements of this section, he may, unless the Board otherwise direct, in lieu of complying with the full requirements of this sub-section in respect of that class of business, cause to be prepared in respect thereof an abbreviated abstract in conformity with the requirements of Part III of the said Fifth Schedule, subject, however, to the preparation of a full abstract once in every five years in accordance with the requirements of the last preceding sub-section.

(4) Subject as hereinafter provided, every insurer shall prepare, in accordance with the regulations contained in

Part I of the Sixth Schedule to this Act, statements as to the insurance undertaking carried on by him at the date to which his accounts are made up for the purposes of any abstract required by either of the last two preceding sub-sections, in conformity with the requirements of Parts II, III and IV of that Schedule respectively applicable to any class of insurance business carried on by him:

Provided that if in any case such an investigation as aforesaid is made annually the insurer shall not be required to prepare such a statement at the date to which his accounts are made up for the purposes of any abstract or abbreviated abstract required by the last preceding sub-section.

(5) Every insurer carrying on employers' liability business shall annually prepare in accordance with the regulations contained in Part I of the said Fifth Schedule statements of the employers' liability business carried on by him, in conformity with the requirements of Part IV of that Schedule, and shall cause an investigation of his estimated liabilities in respect of that class of business to be made by an actuary, so far as may be necessary to enable those requirements to be complied with.

(6) Every balance-sheet, account, abstract and statement required by this section to be prepared shall comply with the notes appended to any relevant form set forth in the said Second, Third. Fourth or Fifth Schedule, shall be printed, and shall be signed by the insurer, or in the case of an insurance company by the person for the time being presiding over the board of directors or other governing body of the company, by two directors of the company, of whom the managing director, if any, shall be one, and by the principal officer of the company.

(7) With the consent of any insurer, the Board may as respects the insurance undertaking carried on by him, modify any of the regulations, requirements, or forms contained in the said Second, Third, Fourth, Fifth or Sixth Schedule so, however, that the Board shall not make any such modification unless they are satisfied that, in the circumstances, it will not materially diminish the value of the return.

(8) If at any time the Board are satisfied, after consultation with any associations appearing to them to be representative of the insurers concerned, that any modifications of general application ought to be made in the regulations, requirements, or forms contained in the said Second, Third, Fourth, Fifth or Sixth Schedule, and that such modifications are generally considered desirable by such insurers, the Board may make a representation to His Majesty in Council in that behalf, and His Majesty may by Order in Council make the modifications, and upon the coming into operation of any such Order the said Schedules shall have effect as modified by the Order.

9.—*Deposit of Returns with Board.*—(1) Four copies of every balance-sheet, account, abstract and statement required by the provisions of the last foregoing section to be prepared shall be deposited with the Board by the insurer by whom it was prepared within six months after the close of the period to which it relates, or within such further period not exceeding three months as the Board may in any case for special reasons allow.

(2) At least one copy of every return deposited with the Board in accordance with the requirements of this section shall contain the signature in manuscript of every person who is required by this Act to sign the return or any certificate thereon.

(3) If it appears to the Board that any return submitted to them by an insurer in accordance with the provisions of this section is in any particular incomplete, incorrect or misleading, or does not comply with the requirements of this Act, the Board may require such explanations as they may consider necessary to be made by or on behalf of the insurer, and may, after considering any such explanations, decline to accept the return and may give such directions as they think necessary for the variation thereof and of any other return affected thereby, and subject as hereinafter provided, the insurer shall comply with any directions so given:

Provided that any insurer aggrieved by the rejection of a return or by any directions given by the Board under this sub-section may appeal to the Court, and the decision of the High Court shall be final and conclusive.

(4) Every balance-sheet and revenue account deposited with the Board in accordance with the requirements of this section by an insurance company shall be accompanied by a copy of any report on the affairs of the company submitted to the shareholders or policy owners of the company in respect of the financial year to which the balance-sheet or account relates.

(5) Copies of the returns deposited with the Board under this section by an insurance company registered under the Companies Acts, 1908 to 1917, may be sent to the Registrar of Companies in lieu of the statement in the form of a balance-sheet required by sub-sect. (3) of sect. 26 of the Companies (Consolidation) Act, 1908, and where such copies are so sent they shall be treated in like manner in all respects as if they were a statement sent in accordance with that sub-section.

(6) Every insurer shall supply free of charge printed copies of all the latest returns deposited by him with the Board to any policy owner, and, in the case of an insurance company to any shareholder, making application therefor, and shall also supply the like copies to any other person making application therefor on payment of a fee not exceeding one shilling for each set of returns.

ACCOUNTANTS REGISTRATION IN THE IRISH FREE STATE.

In the Senate of the Saorstát Eireann

Mr. Douglas moved the second reading of the Registered Accountants Bill. He explained that its object was to organise the profession of accountancy in the Free State on very much the same lines as solicitors, dentists and veterinary surgeons were organised at the present time. The Bill aimed at setting up a standard of competency, integrity and etiquette, which would be a safeguard to the public and the State. It was no exaggeration to say that to a very great extent the business credit of the community depended upon the integrity of its accountants. Shareholders, particularly in large companies, were dependent almost entirely upon accountants as their safeguard for the accuracy of accounts presented by managers or directors. Bankers also recognised that it was essential to have a large number of competent and, above all, straightforward accountants to certify the various accounts on which the banks gave loans of accommodation. The importance of accountancy, he said, would not be disputed.

Having outlined the history of accountancy, Mr. Douglas said that in Ireland the principal bodies were the Institute of Chartered Accountants and the Society of Incorporated

Accountants and Auditors. In addition, there were in Ireland four other bodies—viz, the London Association of Accountants, the Central Association of Accountants, the Corporation of Accountants, and the Irish Association of Accountants. The latest figures available showed that of the accountants practising in the Free State, 48 were members of the Institute of Chartered Accountants, 30 of the Society of Incorporated Accountants and Auditors, and of the remainder 16 were Corporate Accountants, 9 members of the London Association of Accountants, and 4 members of the Central Association of Accountants. He did not know the exact membership of the Irish Association, but he gathered that it had taken members from some of the other bodies. There were, he believed, some twenty accountants who were not attached to any body.

The principal provisions of the Bill dealt with the setting up of a General Council which was to commence operations in January, 1928, and with the formation of a Register of Qualified Accountants. It was intended that the Council should set up a standard of etiquette and efficiency. The Bill proposed that the Council should consist of twelve members, five representing the Institute of Chartered Accountants, four from the Society of Incorporated Accountants and Auditors, and three to be chosen from the other bodies. In the first instance the appointment would be by the Minister for Industry and Commerce, and afterwards by the accountants themselves, and the Minister would have power at any time to alter the number of the Council by his order laid on the table of both Houses.

The two underlying principles of the Bill were that all persons practising accountancy in the Free State would be subject to the control of a body capable of enforcing a high standard of etiquette and efficiency, and that no person should be allowed to practise as an accountant in the Free State who had not had practical experience and had not served with a registered accountant.

In introducing the Bill he wished to make it clear that he did not stand over any single detail except that there should be registration first, to provide for a standard of efficiency, and, secondly, that in the future there should be actual experience of accountancy as well as the passing of examinations. Under the Bill all persons who were practising as accountants on December 31st last year, or had commenced their training as such, must be placed on the register.

Mr. S. L. Brown seconded the motion.

Dr. Gogarty said that the Bill was really an application to the Government for a charter, which would empower twelve men to deal with accountants and others concerned in dealing with figures. If the Bill was passed they would hand over to these twelve men the power to make rules, fix fees, and impose time limits for qualifications. It would create a council of twelve men who could hold up the accountants of the country, against whom he had heard no complaints.

Mr. Kenny said that he thought that it would have been better to have arrived at an agreed measure. It would certainly have saved the necessity of amending nearly every clause in the Bill.

Mr. P. J. Brady said that if Senator Gogarty had his way there would be no governing body for the medical or legal professions. He himself had some grave objections to certain provisions of the Bill, and hoped that it would be substantially amended in Committee; but there should be some body in authority to ensure competence in the art of accountancy.

Sir Thomas Esmonde said that the Senate was asked to take sides in a dispute in which it did not want to take sides. It would have been much better if the bodies concerned had come together and produced an agreed Bill. He suggested that the Bill should be withdrawn and a new Bill substituted.

Sir E. Coey Bigger supported the Bill, but he suggested that at least three laymen should be appointed on the Council by the Minister.

Sir John Keane said that it was with reluctance he would bring himself to vote on the present Bill. He objected to the policy of breaking down free trade in the profession. He could not adopt the view that accountancy was a proper subject for the same close control as other professions. The real danger, he submitted, was not incompetency, but the lack of integrity. In the Bill there was no definition of accountant.

Mr. O'Farrell approved of the principle of registration of accountants. He thought that it was absolutely essential that the State should be represented, and that it should not be left to accountants alone to set up a standard of examination. This would close up another avenue of progress to boys

The Right Hon. Andrew Jameson said that if they left it to the associations concerned to bring in a Bill they would have to wait till the Greek Kalends. Some other body must be instituted, which would take evidence and bring in what would be more or less an agreed measure. He thought that House was agreed that there should be some body to regulate these accountants. They had had a great deal of trouble in various ways in looking into the financial position of the Free State, and one thing that became clearer than another was that they ought to try to induce their citizens to invest their money in home industries. The great difficulty in getting that done would be to get, at the bottom of a prospectus, names that would inspire confidence.

He did not think they could get a much better set of individuals to judge the matter than a Special Committee of the Senate. An advantage of having a General Council set up would be that men of repute in the profession would take care that any complaint made would be investigated; and the fact that disciplinary action could be taken would undoubtedly help ordinary citizens in the Free State.

Minister's View.

Mr. P. McGilligan, Minister for Industry and Commerce, agreed in regard to the clause relating to articled apprentices, and said, in that form, he would be opposed to it. However, at that stage all they were asked to decide was whether the profession of accountancy should be regulated. About that there could be little doubt, but the manner of regulation was quite a different question. He would prefer to have a Bill of this sort making some regulation of the profession brought in at this period, and when the matter was before the Select Committee the whole circumstances of the cases could be looked into, and clauses made more rigid or relaxed. The picture presented by the Bill as it stood at present was very hopeless.

The Bill Rejected.

On a division the second reading was rejected by 18 against to 15 for.

The voting was as follows:—

Against—Senators Bennett, Bagwell, Barrington, Cummins, Duffy, Sir Thomas Esmonde, Fanning, Farren, Sir John Keane, Kenny, Linehan, McGuinness, McKean, McLaughlin, Molloy, Moore, O'Farrell and O'Hanlon—18.

For—Senators Sir E. C. Bigger, Brady, Browne, Counihan, Douglas, Dowdall, Sir N. Everard, Foran, Mrs. Stopford Green, Sir John Griffith, Guinness, Haughton, Jameson, Earl of Kerry, Mrs. Wyse Power—15.

Holding Companies and the Company Law Amendment Report.

A LECTURE delivered before the Incorporated Accountants' Students' Society of London by

MR. ROBERT ASHWORTH, F.S.A.A., A.C.A.

The chair was occupied by Mr. W. HOLMAN, F.S.A.A.

MR. ASHWORTH said: The subject allocated to this lecture by your able Secretary is that much discussed question of "Holding Companies," and I am to give special attention to the recommendations made by the Company Law Amendment Committee in their recent Report. It will, of course, be quite impossible for me to deal with the whole subject in one lecture.

It has been stated in one of the reviews of my book "Limited Liability Companies," that I do not appear to approve of holding companies. Let me say at the outset that this is a wrong interpretation of my remarks on the subject, for there can be no doubt that holding or, as they are sometimes called, parent companies, although of recent but rapid growth, exercise very useful functions in commercial life. What I do not approve of is the ease with which such companies can be, and are, used as a cloak behind which to conceal departmental losses, excessive payments for goodwill, bad management and manipulation of profits. It is, therefore, more particularly from the point of view of the shareholders and the investing public generally that I intend to examine the matter this evening, and not from the points of view of the management or the economist.

DEFINITIONS OF HOLDING AND SUBSIDIARY COMPANIES.

A holding company may be defined, for all practical purposes, as one which by itself or through nominees holds at least 50 per cent. of the issued share capital or at least 50 per cent. of the voting power in one or more other companies termed "subsidiary companies."

A subsidiary company is defined in the Company Law Amendment Report as follows:—

> "When a company includes among its assets and holds either directly or through a nominee or nominees shares in another company, and
>
> "(1) By means of such holding either (*a*) has more than 50 per cent. of the voting power in such other company, or (*b*) holds more than 50 per cent. of the issued share capital of such other company, or
>
> "(2) Has power to appoint or nominate the majority of the directors or persons occupying the position of directors, by whatsoever name called, of such other company, then such other company shall be deemed a subsidiary company for the purpose of this section."

A company which holds what I term a "Policy controlling interest" without at the same time holding a "Capital controlling interest" is not, in my opinion, within the scope of our subject. For example, where a company in consideration of entering into some long term contract with another company acquires the right to appoint a majority of directors to the board of that company, thus controlling the policy of the directors of that company.

As a rule holding companies are generally public companies, though they may be private companies, while subsidiary companies are usually private companies, though they may be public companies. We must not, however, lose sight of the fact that the subsidiary companies may themselves in turn become holding companies.

The nature of the business of holding companies differs widely. For example, you may have holding companies which are:—

> (1) Solely investment companies as originally constituted, having no power to carry on any other business than that of an investment company; or
>
> (2) Solely investment companies by reason of having sold the whole of their trading business to one or more subsidiary companies for a share consideration; or
>
> (3) They may be trading companies having acquired a controlling interest in other concerns either by purchase of shares in those companies or by selling only part of their business to other companies for a share consideration.

SHAREHOLDERS AND THE HOLDING COMPANIES "LEGAL BALANCE SHEETS."

The position of the shareholders in holding companies will probably be better appreciated by you if I outline some of the various reasons for the existence of such concerns, the principal of which may be said to be as follows:—

> (1) To hide the result of its good trading from the outside world, thus preventing the attraction of competition to the profitable branches of the business to the exclusion of those unprofitable.
>
> (2) To foster the growth of the various departments of the business by having the benefit of the greater efficiency and enterprise usually resulting from the formation of those departments into separate legal entities, each creating or improving its own goodwill.
>
> (3) To purchase and separately maintain the goodwill of other businesses of a like nature to its own, thus eliminating adverse competition.
>
> (4) To provide more efficient financial machinery by which to finance the departments of its business represented by the subsidiaries.

Unfortunately, these reasons do not always actuate those who are responsible for the creation of the subsidiaries; consequently what I have termed immoral reasons too often obtain as follows:—

> (1) To hide the true position of affairs from the shareholders and the investing public generally by transferring the business of departments which are making heavy losses to subsidiary concerns, and hoodwinking the shareholders by paying dividends on the holding company's capital without taking those losses into consideration.
>
> (2) To conceal excessive payments for goodwill or promotion profit.
>
> (3) To camouflage an unjustifiable writing up of assets.
>
> (4) To provide directors' fees, office rent and management salaries.

Generally speaking, the only information available to the shareholders of the holding company with regard to the capital invested in the subsidiaries is that shown on the assets side of what has become known as the company's "legal balance-sheet," under the heading of "Shares or Investments in Subsidiaries," which in itself is unintelligible and frequently misleading to both shareholders and creditors. This absence of intelligible information has led to persistent and surely not unreasonable demands on the part of shareholders for information supplemental to that contained in the "legal balance-sheet," in order that they may be enabled firstly, to see how the capital subscribed by them has been disposed of, and, secondly, to assess the value of the shares held by them in

the holding company by having at their disposal information as to the total value of the net assets represented by their capital, how it is constituted, and its total earning capacity.

In his present position the shareholder in the holding company is kept almost entirely in the dark as to the activities and constitution of the subsidiary companies, except in so far as the directors may be kind enough to give him a little enlightenment in their annual report or may be elicited from them at general meetings. You may say that if the shares of the holding company are quoted on the Stock Exchange, surely the "market price" ruling there is sufficient for the shareholder. It certainly is not, for this market price is based on the position revealed by the holding company's "legal balance-sheet" and the dividends paid by such company, and is probably also influenced, to a certain extent, by sentiment. The dividends may have been paid by the holding company without taking into consideration the effect of heavy losses made by some of the subsidiary companies on the value of the asset "shares in subsidiaries."

The Stock Exchange is generally as much in the dark as the shareholder as to the position of the subsidiaries; consequently the time comes when the directors of the holding company, by reason of heavy undisclosed losses made by the subsidiaries, are probably forced to recognise the situation, which results in some capital reduction scheme being put into operation in respect of the holding company which brings the market value of its shares toppling down, with consequent heavy loss to shareholders who have relied on the "market price" of the shares and the holding company's "legal balance-sheet." There have been a few recent glaring examples of this with which you are no doubt familiar.

It is not surprising, therefore, that shareholders should be making their present persistent demands for information supplemental to that contained in the "legal balance-sheet" of their company. Yet I have seen these demands described as "mere curiosity" by a gentleman whose only answer to such demands is the slogan "trust the directors." This reminds me of the story of the Jew who gave his son his first lesson in business in the following manner:—"Ikey, my boy, come into the garden and I will give you the first lesson in the business. Climb that tree, my boy, and when I say jump you must jump right into my arms." Ikey climbed the tree and the father gave the order to jump, but as the boy jumped the father also jumped to one side and Ikey fell with a crash. When he recovered his senses the first words he heard were from his father, who said: "Ikey, my boy, that is the first lesson in the business: never trust anybody—not even your own father." I am not advocating that you should adopt this advice—in fact, I have found that in business you must trust somebody—but the shareholder would, in most cases, be unwise to trust implicitly the value placed on the item "shares in subsidiaries" appearing in the holding company's balance-sheet, especially where it is stated to be "at cost" or is described as "investments in subsidiaries." In this latter case cash advances and loans to subsidiaries are sometimes improperly bulked under such heading with shares.

That there are difficulties in the way of supplying the information desired by shareholders is unquestionable, but that these difficulties are surmountable is proved by the fact that a number of holding companies, whose directorates recognise the position from the point of view of the investing public, are at present voluntarily meeting the demands by providing shareholders with what have been described as "consolidated or combined balance-sheets" in addition to the "legal balance-sheet," which also illustrates the old adage that "where there is a will there is a way." I now want to consider some of those ways, but before doing so let me briefly refer to the position of the auditor of the holding company in relation to the item "shares in subsidiaries" in the "legal balance-sheet."

The Auditor and the "Legal Balance Sheet."

The position of the auditor to the holding company is one of extreme difficulty with regard to the valuation of the asset "shares in subsidiaries" where there is no market quotation of those shares, and he is not also auditor to all the subsidiaries as he has no power to demand the production of the accounts of those companies which are separate legal entities from the holding company. He should, of course, demand evidence as to the existing value of the shares and by much effort in this direction may probably obtain access to such accounts, by means of which he can then judge the valuation placed on the shares, for although the auditor is not a valuer he must see that the assets stated on the "legal balance-sheet" have been properly valued before he can report that such balance-sheet shows a true and correct view of the state of the company's affairs. Where this evidence is refused his remedy is either to get the directors to make a valuation of the shares—in which case he must be careful to state in his report that they have been so valued—or, alternatively, state in his report that he has been unable to obtain any evidence as to the value of the shares.

Where shares in subsidiaries are bulked with loans and advances to subsidiaries, or where the latter are bulked with sundry debtors, the auditor should get the directors to amend the balance-sheet by separating these items, and if they refuse so to do he has, in my opinion, no option but to disclose the position in his report to the shareholders.

Further, in addition to satisfying himself as to the valuation of the item "shares in subsidiaries," he must also ascertain whether the loans and advances to subsidiaries are bad or doubtful, and either see that provision is made therefor in the accounts of the holding company, or mention the matter in his report.

Methods of Supplying Supplemental Information.

In considering methods by which shareholders may be supplied with information supplemental to that contained in the "legal balance-sheet," the main difficulties to be remembered are:—

(1) That the holding company may have hundreds of subsidiaries.

(2) That some of the subsidiaries may be foreign companies.

(3) That some of the subsidiaries may themselves be holding companies.

(4) That the financial periods of all the companies should end on the same date in each year.

It must also be borne in mind that to be successful the method enforced must be simple, intelligible, and void of any information which might be misleading or, in the hands of a third party, detrimental to the interests of the company.

Various methods have been put forward for this purpose, the most important of these being that, in addition to the "legal balance-sheet" of the holding company, shareholders should be provided with either:—

(1) Copies of the balance-sheets of all the subsidiary companies, distinguishing in each the capital held by the holding company from that held by others; or

(2) A "combined statement in the form of a balance-sheet" of the holding company and the subsidiaries, in which the latter would be treated as branches of the former; or

(3) A "statement in the form of a balance-sheet," amalgamating the balance-sheets of all the subsidiaries and distinguishing therein the capital held by the holding company from that held by others.

Separate Balance Sheets of Subsidiaries.

The objections to the first method are that it would be too expensive, that it would be unintelligible to shareholders who, generally speaking, have not sufficient knowlege to amalgamate the results, and that the important information given as to individual subsidiaries would be accessible to any competitors who may be shareholders and in consequence be detrimental to the interests of the company. These objections are, in my opinion, sufficiently weighty to make such a procedure generally impracticable, especially where there are numerous subsidiaries, and would certainly be sufficient to prevent any legislation on the matter.

Combined Balance Sheet of Holding Company and Subsidiaries.

The second method—under which the balance-sheets of all the companies, including that of the holding company, would be amalgamated into one statement in the form of a balance-sheet—would provide information as to the position of companies as a whole. It would show the relation of the assets and liabilities of the whole group of companies to the holding company's share capital and capital held by any outsiders in the subsidiary companies, which items of issued share capital would be separately stated. The item "shares in subsidiaries" would be eliminated in this combined statement against the corresponding items of share capital and any premium on shares of the subsidiary companies. If any shares in the holding company are held by the subsidiary companies they should be shown in such amalgamated statement as a deduction from the corresponding items of share capital and any premium on shares of the holding company.

In this manner the whole of the share capital of the holding company would be accounted for and could be compared with that held in the subsidiary companies by outsiders. By this method shareholders of the holding company would see exactly how the capital subscribed by them is represented in the whole group of companies. Where subsidiary companies are also holding companies this procedure would first be adopted by each subsidiary holding company in connection with its own accounts and those of its subsidiaries. Only the amalgamated statement of the subsidiary holding company would be dealt with in preparing the amalgamated statement of the holding company proper.

Inter-company transactions would be dealt with as I shall outline later when the third method is discussed.

From the points of view of the management and of the economist this method of preparing the information is no doubt the best, as it clearly shows the relation of the assets and liabilities of the whole group of companies to the actual initial capital subscribed.

The main objection, however, to this second method, under which you will have seen the subsidiaries are treated as branches of the holding company, is that a combined balance-sheet of the whole group of companies may give creditors and shareholders the idea that they have a right of recourse against the net assets revealed by such statement, as it does not clearly indicate the separate legal entity of the subsidiary companies, which I think it is important to preserve. Nor does such a statement show clearly the relation of the assets and liabilities of the subsidiary companies to the item "shares in subsidiaries" appearing in the "legal balance-sheet" of the holding company. For these reasons, in my opinion, from the shareholder's point of view such a statement would not meet the position nearly so well as the third method, which is the one I am going to recommend to you to-night.

Statement in form of Balance Sheet Amalgamating Subsidiaries' Balance Sheets.

Under the third method the balance-sheets of the subsidiary companies would be amalgamated into one statement, prepared in the form of a balance-sheet, showing the aggregate position of all the subsidiary companies and clearly affording a means of ascertaining how the item "shares in subsidiaries" is represented.

This amalgamated statement could be headed:—

X. Y. Z. Co., Ltd.,

Statement in form of Balance Sheet showing position of Subsidiary Companies as at ——

The profit and loss appropriation accounts of the subsidiaries should be set out in detail in such amalgamated statement, instead of merely showing the balance on the profit and loss accounts, so that full information is given as to the total appropriations of profit made by the subsidiaries.

The issued share capital held by the holding company in the subsidiaries should be separately stated from that held by others.

This statement in the form of a balance-sheet could not in any way be detrimental to the interests of any of the companies as their individual position would not be disclosed, but, on the contrary, where the companies as a whole are sound, would create a confidence which is at present to some extent lacking. Neither could such a statement in any way mislead shareholders or creditors, for its nature would be clear on the face of it. The only objection that could be raised to such a document is the possible difficulty of bringing the financial periods of the subsidiary companies into line with that of the holding company, which would have to be done to make the statement of any value. This difficulty is not so great as appears at first sight, for not only has the holding company a controlling interest in its subsidiaries but, as a rule, it also has a controlling vote on the directorates of those companies. So that the holding company is usually in a position to work its will in this matter, and, in any case, now that the Companies Acts, 1908 to 1917, are being overhauled, the matter could be dealt with by legislation if considered necessary without involving any serious hardship.

The balance-sheets of foreign subsidiary companies, before amalgamation with those of other subsidiary companies, should be converted into sterling in exactly the same way as foreign branch balance-sheets are dealt with at present. Where the subsidiaries are numerous I suggest that a subsidiaries journal and private ledger be kept, so that the items in the various subsidiary balance-sheets may be journalised to the respective accounts in the ledger, and the preparation of an amalgamated statement facilitated. In other cases the amalgamated statement could be prepared by tabulating the subsidiary balance-sheets and cross totalling.

An amalgamated statement of this kind showing the aggregate position of the subsidiaries would be undoubtedly of great value to shareholders, who would be enabled by this medium to understand the true significance of the item "shares in subsidiaries," and ascertain whether the dividends paid by the holding company are justified by the results of the group as a whole.

Much was made by the Company Law Amendment Committee, when dealing with the evidence on this matter, of the fact that such an amalgamated statement would not disclose the position of the separate subsidiaries. Although such information can be given if desired, there is, in my

opinion, no need to show this separate position. All that shareholders and creditors of the holding company are concerned with really is the "legal balance-sheet" of the holding company, but in order to enable them to interpret properly the story at present inadequately told by such balance-sheet, in so far as the item "shares in subsidiaries" is concerned, they want information in the aggregate which will in the first place enable them to do what shareholders in a non-holding company can do from their company's "legal balance-sheet," that is, see exactly how the capital subscribed by them is constituted, and, in the second place, enable the creditors to see how far the tangible net assets represented by the item "shares in subsidiaries" in conjunction with the other assets justifies the credit given to the holding company. From a management point of view the position would of course be different, for the management is concerned as much with the results of the individual companies as it is with the group as a whole.

In preparing this amalgamated statement, strictly speaking, any unrealised profits on inter-company transactions, *e.g.*, on stock valuations, should be eliminated, but from the holding company shareholders' point of view there is not much point in eliminating the actual inter-company transactions, for in arriving at the aggregate position they will cancel out, leaving the position with regard to the aggregate net assets at the correct figure. The aim should be to make the preparation of this statement as simple as possible consistent with accuracy in the aggregate.

Now let us examine the Company Law Amendment Committee's observations and recommendations on the question.

Company Law Amendment Committee's Observations on Consolidated Balance Sheets.

The Committee occupied much time in going into the question of holding companies and their accounts, but I think, if you read the evidence given before it, you will agree with me that many of the questions put to witnesses were beside the point, and much of the evidence given by certain witnesses—who were apparently deadly opposed to the idea of making any disclosure of the position of the subsidiaries of the companies they represented, for reasons best known to themselves—was, to say the least of it, shortsighted and prejudiced. Consequently the influence of this evidence is seen in the Committee's recommendations.

In Clause 71 of the Report of the Committee you will find the following observation on the question of "consolidated or combined balance-sheets":—

> "Some witnesses take the view that the publication of a consolidated or combined balance-sheet for the whole group of companies should be made compulsory. We do not agree with this. Many holding companies have adopted the practice already, and we consider the matter should be left to the shareholders to make such requirements as to the form of their company's accounts as they may think proper. It is often forgotten that it may be in the best interests of the shareholders themselves that the accounts should be in a certain form, and we consider that undue interference by the legislature in the internal affairs of companies is to be avoided, even if some risk of hardship in individual cases is involved."

Unless it be the Committee's recommendations on this subject, which I propose to examine later, I can imagine nothing more futile than this observation, which totally ignores the following facts:—

(1) That the accounting party is not the body of shareholders but the board of directors, which can only in rare instances be compelled by the shareholders, in whose hands the Committee has left the decision, to give this additional information, owing to the fact that shareholders who take the trouble to attend the general meetings of the company are out-voted, on a poll being demanded, by the use of the proxies with which the directors have taken care to arm themselves against attack. In fact, resolutions which have been almost unanimously carried on a vote by a show of hands at meetings at which important matters have come to light, not available to the appointors of the proxies, have been defeated in this manner, and *vice versa*.

(2) That the holding companies which have already adopted the practice of supplying this information to shareholders have done it at the instigation of the directors of those companies. I do not know of one case where the shareholders have been able to force this practice on the directors.

(3) That the case of hardship, recognised by the Committee, applies to shareholders in all holding companies which do not already give this information because the shareholders are left without any intelligible information as to the disposal of the capital they have subscribed. The larger part of that capital may have been lost in speculative enterprises, or may be largely represented by intangible assets, for all the shareholders know to the contrary.

(4) That so long as human nature remains as it is the directors of holding companies will always endeavour to put the best face on their balance-sheets, and if the issue of a consolidated balance-sheet tends to depreciate the face value of the balance-sheet of the holding company there would, at least, still remain the temptation to withhold the information unless the matter is provided for by legislation.

It is very difficult to understand the Committee's reluctance to recommend interference by legislation in the internal affairs of the company in this instance, having regard to the fact that it does not hesitate to do so in its recommendations on other matters which might be considered to be of less moment. On the grounds of public policy alone I should have thought some legislation on the matter was required, bearing in mind the immoral reasons sometimes influencing the birth of such companies, to which I have already referred.

The Committee, however, states that it does consider "that shareholders and others concerned are entitled to know whether the dividends proposed to be declared by the holding company are justified by the results of the group as a whole," but the Committee's effort to remedy the position falls short at the intention, for, in my opinion, its recommendations leave the matter in its present position.

Company Law Amendment Committee's Recommendations.

The recommendation of the Committee is that:—

> "A section should be inserted in the Act to provide that where a company (hereinafter called the "holding company") holds shares in a subsidiary company, a certificate signed by the same persons as signed the balance-sheet should be appended to the balance-sheet of the holding company, and filed with it, stating how the aggregate profits and losses of any subsidiary company or companies during the period covered by the accounts presented have been dealt with in the accounts of the holding company."

The Committee further recommends that in order to meet cases where the subsidiary company, as defined by it, is not actually controlled by the holding company, it should be provided that where the directors of the holding

company certify in writing that the holding company is not lawfully entitled or is otherwise unable to obtain the information required for the purpose of the certificate mentioned, such certificate of the directors should be appended to the balance-sheet in lieu of the certificate mentioned.

Now you will have noticed that this recommendation places no obligation upon the directors of the holding company to disclose the amount of the aggregate profits and losses of the subsidiaries, but merely requires a certificate as to how those aggregate profits and losses have been dealt with in the accounts of the holding company. So that it appears to me the recommended certificate need state only whether or not these aggregate profits and losses had been dealt with in the accounts of the holding company under review, and if they have been dealt with, in what manner. It would therefore be somewhat peculiar if the holding company was not lawfully entitled or was otherwise unable to obtain the information as to how it had dealt with such aggregate profits and losses in its own accounts, which is all such certificate apparently requires to be stated. You will, of course, be aware that, as a rule, the aggregate profits and losses of the subsidiaries are not dealt with in the accounts of the holding company at all, only the dividends from the subsidiaries being dealt with. It, therefore, seems to me that in such cases all that the certificate need state is that the aggregate profits and losses have not been dealt with in the accounts. Similarly, where the profits and losses of some of the subsidiaries are dealt with and others excluded, the aggregate profits and losses would not have been dealt with and in my opinion the persons signing the certificate attached to the balance-sheet of the holding company could so certify. So that shareholders will still remain in the dark as to the justification for the payment of dividends by the holding company.

It is a pity, in my opinion, that, as the Committee did not see its way clear to recommending a compulsory statement in the form of a balance-sheet showing the aggregate position of the subsidiaries, it did not recommend that the directors of the holding company should furnish a certificate to be appended to the balance-sheet of that company as to what, in their opinion, was the present "intrinsic value" of the item "shares in subsidiaries" at the date of that balance-sheet, with a similar liability imposed on the directors to that obtaining in the case of misrepresentation in a prospectus; that is to say, that the onus of proof be put upon the directors to prove that they not only honestly believed the "intrinsic value" stated by them to be a true statement of the position, but that they had reasonable grounds for so believing.

By the term "intrinsic value" I mean the value of the shares arrived at after taking into consideration the proper valuation of the net assets of the subsidiaries, as going concerns, the earning capacity of the businesses, the degree of risk involved in trading by such businesses, and the peculiar relationship existing between the holding company and its subsidiaries.

After all, it is surely the valuation of these shares which is at the root of the whole trouble, and not merely a question of aggregate profits and losses.

Profits and Losses of the Subsidiaries and Holding Companies' Accounts.

Now if you will be so kind as to bear with me for a few moments longer I should like in conclusion to consider the question of bringing into the accounts of the holding company all profits and losses made by its subsidiaries.

It has been suggested that all profits and losses made by subsidiaries should be brought to account in the books of the holding company by crediting that company's profit and loss account and debiting a "subsidiaries' profit and loss suspense account" with the subsidiaries' profits, and debiting the profit and loss account and crediting the "subsidiaries' profit and loss suspense account" with the subsidiaries' losses. Dividends received from subsidiaries would then be credited to this "suspense account" and not to the profit and loss accounts, and any writing down of the asset "shares in subsidiaries" would be debited to suspense account.

In my opinion, generally speaking, such a procedure would not only be misleading but would be entirely wrong, for the holding company would be showing as an asset surplus profits to which it was not legally entitled except in so far as they are declared by way of dividend, and as a liability losses for which it had no legal responsibility except in so far as such losses affect the value of the shares held in subsidiaries. There is, however, something to be said for this procedure where the subsidiaries are merely departments of the holding company formed into separate legal entities in which the holding company holds so much of the capital of such companies as it can legally hold and has complete control. Even in this case the same objection holds good although there is more to be said in its favour, for in many of these cases the subsidiaries make continued losses, the benefit of their existence being derived solely by the holding company. For example: take the case of a selling subsidiary company which has goods so charged out to it by a manufacturing or buying holding company that it cannot make a profit but which nevertheless may still be a very valuable investment of the holding company by reason of the profit derived by the latter company from the trading of the subsidiary being greatly in excess of the losses made by the subsidiary. In such a case as this I certainly think that the losses of the subsidiary should be reserved for in the accounts of the holding company, for, although the shares held in the subsidiary may be worth much more than their book value to the holding company and may not have depreciated, if at all, to the extent of the losses made by the subsidiary, there will come a time when the whole of the subsidiary's working capital will have been transferred to the holding company in the surplus profit, when the holding company would be called upon either to make advances to the subsidiary which could never be repaid as such, or to provide the subsidiary with fresh capital which would mean writing off the value of the old shares.

This may not be sound finance but for reasons of policy it is often done. If, therefore, the subsidiary losses, in such a case, are not reserved for by the holding company there would be the danger that the profit earned by such company on its subsidiary trading might be entirely distributed by way of dividends without regard to such losses, probably involving the holding company in financial difficulties when it is called upon to re-finance the subsidiary. Where, therefore, the losses of the subsidiary arise solely from the policy adopted by the holding company, I think the suspense account method is the better way of dealing with such losses in the accounts of the holding company, but care must also be taken to properly depreciate the asset "shares in subsidiaries" otherwise the capital of the subsidiaries will be returned to the holding company by way of surplus profits and enter into and form part of that company's general assets while it is at the same time still represented in the value of the shares. In the case of other subsidiaries where the losses arising are solely due to trading and no surplus profit is earned by the holding company the losses should be considered simply and solely in the light of their effect upon the valuation of the shares held by the holding company in the subsidiaries, the value of such shares being written down accordingly.

Discussion.

The CHAIRMAN: Before throwing the meeting open for discussion I would like to emphasise a point which might easily be overlooked, and that is that the issue by holding companies of combined balance-sheets in no way does away with the liability to issue legal balance-sheets, which they are bound to issue under the Companies Acts. The combined balance-sheet, as advocated by our Lecturer, is an optional balance-sheet, issued for the purpose of giving the shareholders additional information, but it in no way does away with the legal balance-sheet as we know it. With just that proviso, which I am sure the Lecturer will excuse, I will throw the meeting open for questions and discussion. Perhaps Mr. Mearns would like to say a few words.

Mr. S. H. MEARNS, Chartered Accountant: I do not know why I should be called upon to speak at this meeting, because really I am a guest here. I happened several months ago to have lunch with Mr. Ashworth, and on that occasion I passed one or two criticisms upon an article which appeared in the *Incorporated Accountants' Journal*. Mr. Ashworth has met those criticisms and effectively silenced me to-night. I am sure we are all indebted to him for the way in which he has brought forward this subject, which I know is very dear to his heart. It has received a great deal of prominence in the Press, and he has made some valuable contributions to the discussion of the subject. I agree with him as to the recommendation that the most satisfactory way of dealing with the investments of subsidiary companies is to make out a statement in the form of a balance-sheet aggregating the position of the subsidiaries and thus showing clearly how the investments are made up. There is one point arising out of the recommendation made by the Departmental Committee in this connection, and that is with regard to the auditor's position. I would like Mr. Ashworth to give us his opinion as to whether the recommendation includes the auditor, because those who sign the balance-sheet are the directors and the secretary. The auditor merely signs his report on the balance-sheet.

Mr. R. F. SILVESTER, Incorporated Accountant: I think Mr. Ashworth has made this very complicated subject seem extremely simple, but there is one small complication he has not referred to, and it has happened within my own experience. You may find that the holding company, having control of a number of subsidiaries, ascertains that one of those subsidiaries is not doing very well; it thereupon adjusts the price at which it supplies a commodity to the subsidiary in such a way that the subsidiary, which would have made a loss at the current market price of the goods, is made to show a profit. I think that whatever safeguards are provided by the Royal Commission, it is impossible to prevent that sort of thing happening. It seems to me that a parent company having control of subsidiaries has absolute power to control, not merely the policy of the subsidiaries, but also the amount of profit which they shall make. It is true that this aggregate balance-sheet would provide a net statement of the profits made, but, after all, are not those net profits to some extent fictitious as between the companies themselves? The tendency, I believe, is for parent companies to see that all their subsidiaries make profits. I have been very much interested in the lecture, but I should like Mr. Ashworth to deal with that one point.

Mr. W. ADDISON: In the case of combined balance-sheets where the dates of the financial years of the subsidiaries do not correspond, the Lecturer suggested that the directors are perhaps in a position to obtain and give information up to a date that would correspond with the end of the year of the parent company. Is not that rather playing into the hands of directors? They are able to prepare statements that are not audited, and they no doubt would desire to put as favourable a complexion on matters as possible and thereby unduly influence the position.

The CHAIRMAN: Before I ask Mr. Ashworth to reply to the discussion there is one point to which I would like to refer, because he laid very great stress on it, and that is the question of the valuation of shares of subsidiary companies. Mr. Garrett has also referred to that, but personally I fail to see the very great difficulties which both Mr. Ashworth and Mr. Garrett seem to see. When holding companies acquire shares in subsidiary companies, they do so, generally speaking, by purchase. Now, it is obvious that when a company purchases shares in another company it does not necessarily take them at face value; it considers the assets and the liabilities of the particular company. The company may be one in low water, and the shares may be valued at a very small figure. On the other hand, the subsidiary may be a flourishing company, and although its share capital may be small, a considerable sum may be paid for it in consideration of the goodwill attaching to it. Now, it will be quite obvious that the value of those shares at the time of purchase is what is paid for them. Subsequent adjustments will have to be made in the books of the holding company if, for example, profits included in the purchase price are subsequently distributed, or if losses are subsequently sustained, but, generally speaking, it seems to me that the value of the shares in subsidiary companies will be, and in the absence of any special circumstances will continue to be, the price for which they were purchased by the holding company. I should like to have Mr. Ashworth's opinion on that, because if cost is taken, generally speaking, to be the value of shares in subsidiaries, then many of the difficulties which he has emphasised, it seems to me, will disappear automatically.

Mr. ASHWORTH: The Chairman made some reference to the question of legal balance-sheets and emphasised the fact —which I had already done, because I purposely laid stress on the words "in addition to the legal balance-sheet"—he emphasised the fact that the company must still have its legal balance-sheet. I agree with him entirely. I thought I had made that quite clear in my lecture. My friend Mr. Mearns has given us a valuable contribution this evening, but he has put a question to me more, I think, for your benefit as students, than for that of anyone else. The question is whether the auditor would be considered to be a person who signed the balance-sheet for the purpose of the certificate mentioned in the Amendment Committee's Report. In my opinion the question does not arise, because the auditor does not sign the balance-sheet. As a matter of fact, Mr. Mearns answered his own question—the auditor signs his report, not the balance-sheet. I take it that the people who would have to sign the certificate to be appended to the balance-sheet of the holding company would be the two directors who sign in accordance with law, and the secretary who signs the balance-sheet under the provision of the Articles. I imagine that if the secretary signs the balance-sheet on the instructions of the directors, he would also have to sign the certificate. Mr. Sylvester pointed out that although I had mentioned that holding companies sometimes make their subsidiaries show a loss by charging out goods to them at such a figure that they cannot do otherwise, I did not state that sometimes the opposite takes place, and holding companies sometimes want their subsidiaries for various purposes to show a profit. But I think he has provided this evening one of the strongest arguments in favour of the amalgamated balance-sheet that could have been put forward, because, if you show the position as a whole, the profit is nullified by the debit in the holding company's balance-sheet, or *vice versa*; and even if you show the subsidiaries as a whole *qua* subsidiaries, although there is a profit in the subsidiaries which might be termed a fictitious profit, yet I do not see that that has a very great bearing upon the position, for the vital fact of the holding company's loss would also be published. It could not amount to very much, and it could not be continued for a long time, because the holding company would be showing a relative loss, and while you have the total profits or losses of the subsidiary companies and the aggregate net assets with which to compare the value placed on the shares of subsidiaries, you have also got the profit or loss made by the holding company, which will be taken into consideration in examining the holding company's balance-sheet subsequent to arriving at a proper valuation of the item "shares in subsidiaries." It is really only a matter of deduction; you have all the information you require in order to ascertain the true aggregate position. You can easily set off the profit or loss made by the holding company against the loss or profit made by the subsidiaries to ascertain the net result of the companies as a whole. Then Mr. Addison mentioned that directors might manipulate in some way or other the financial periods of the subsidiaries. My point was this: that having a controlling vote on the directorates of the subsidiaries, the directors of the holding company may quite easily make up their accounts with regard to the subsidiaries to any date they desire. As a rule there is nothing to prevent

them bringing the accounting periods of the various companies into line with each other.

Mr. ADDISON: I have known a case where they did not alter the actual auditing date, but altered the period of the balance-sheets of the subsidiary companies.

Mr. ASHWORTH: As I said in my lecture, unless they make their financial periods end on the same date the whole thing is valueless, because then manipulation could arise. Mr. Garrett made a very able contribution, but I rather think he inferred that I was decrying the work of the Committee. Of course it would be very foolish on my part to do any such thing. Taken as a whole, the work of the Committee was extremely able, but what I am concerned with at the moment is not the bulk of the work, but the work of the Committee on the question of holding companies. That is the "fly in the ointment" as far as I see it. With regard to the question of the valuation of shares, I did nto say that aggregate profits and losses had no bearing on the valuation of shares, which would have been ridiculous; but I did say that it was not merely a question of the aggregation of profits and losses. One of the chief reasons why I am so anxious to see some alteration with regard to this matter of the valuation of shares is the fact that companies do show those shares at cost, which in most cases is not a true valuation of them. They go on, year in and year out, showing these shares at cost, although the subsidiaries may have had considerable losses and, in fact, the bulk of the capital may have been washed out. You have only to look at two recent examples, without mentioning the names of the companies. In one of these cases the company persisted in showing these shares at cost, and had done so for many years, and it had paid dividends, but as a matter of fact one of its subsidiaries was making an immense loss—so much so that practically the whole of the capital of that subsidiary represented in the item "shares in subsidiaries at cost" had gone, and it was not until they had to face the situation from the holding company's point of view, and re-finance that company, that they saw the error of their ways.

The CHAIRMAN: My point was more in regard to the original valuation. I said that subsequent adjustments would have to be made, and I had in mind losses made subsequently. I did not intend to infer for a moment that they should remain static all the time. I was considering a case of the purchase by a holding company where the cost would be the original valuation. I had no idea of suggesting that that valuation should remain fixed.

Mr. ASHWORTH: Although the directors are working genuinely and are writing down the assets, according to the true state of affairs, the shareholders have got nothing to enable them to judge of that valuation, and as that item probably represents three parts of the capital they have subscribed to the original company, it seems to me that they are entitled to know how the capital is constituted, and whether the present valuation is justified by the value of the aggregate net assets of the subsidiaries and the total earning capacity of the subsidiaries. I do not say that in every case directors do not act in a *bona fide* way; I believe they do in the majority of cases. But I know many cases in which they do not, and those are the people, in my opinion, who ought to be made to toe the line. I think I have dealt with all the questions now, and I am very much obliged to you.

Mr. R. F. SILVESTER, Incorporated Accountant, proposed, and Mr. S. E. STRAKER seconded, a vote of thanks to Mr. Ashworth for his lecture, and it was carried unanimously. A vote of thanks was also accorded to the Chairman for presiding.

District Societies of Incorporated Accountants.

SHEFFIELD.

On March 11th Mr. Raymond W. Needham, Barrister (London), delivered a lecture on "The New Finance Act" before the members of the local societies of the Incorporated Accountants, Chartered Accountants, Institute of Bankers, and Institute of Secretaries, the arrangements being made by Mr. Percy Toothill (Hon. Secretary of the first named society), who is acting as Joint Secretary for this session. The Lecturer dealt with the various sections of the Act, and gave interesting illustrations in connection with particular sections, explaining in detail the many new points provided for by the new Act. The chair was occupied by Mr. A. Leslie Wing, Chartered Accountant, and a hearty vote of thanks to the Lecturer and Chairman terminated the proceedings.

SOUTH WALES AND MONMOUTHSHIRE.

There was a good attendance at a meeting of the Cardiff and District Students' Section held at Cardiff on March 10th. Those present included Mr. Percy A. Hayes, F.S.A.A., in the chair; Mr. S. M. Wilkinson, F.S A.A., Mr. Percy H. Walker, F.S.A.A. (Hon. Secretary of the District Society), Mr. G. E. S. Heybyrne, F.S.A.A. (Newport), Mr. L. R. Williams, F.S.A.A., Mr. T. N. T. David, F.S.A.A., Mr. A. Percy Horton, F.S.A.A., Mr. Owen I. Thomas (Vice-Chairman of the Students' Section), and Mr. J. Alun Evans (Hon. Secretary of the Students' Section).

The Lecturer for the evening was Mr. Ll. Francis, solicitor, Cardiff, who took as his subject "Changes in the Law relating to Property," which includes the Law of Property Act, Administration of Estates Act, the Land Registration Act, the Trustee Act, the Land Charges Act, and the Settled Land Act.

Mr. Francis opened his paper by drawing attention to the great importance of the new Acts compared with the old law passed very many years ago. Sweeping changes had been effected and the legislation, which received the Royal Assent on April 9th, 1925, became operative on January 1st, 1926.

The Lecturer outlined the system of ownership of land, and drew particular attention to the system of leaseholds and to the fact that freeholds represent the highest form of land tenure in this country. Dealing with the Administration of Estates Act, reference was made to the fact that equality of sexes had now been recognised, the husband and wife, whichever was the survivor, being treated alike in the case of intestacy, whereas under the old law the estate devolved on different principles according to whether such estate consisted of realty or personalty. The distribution of the estate of a deceased person in the case of intestacy was fully explained, and the advantages over the old law carefully pointed out.

Several members took part in the discussion following the lecture, and Mr. Francis, on the proposition of Mr. Owen I. Thomas (Vice-Chairman), seconded by Mr. S. C. Williams, was accorded a very hearty vote of thanks for his admirable lecture.

The Chairman, in closing the meeting, referred to the fact that Mr. Ll. Francis was the son of the ex-Lord Mayor (Alderman W. B. Francis), who had rendered great service to the city.

YORKSHIRE.

At the final meeting of the 1926-27 session the successful local Final candidates at the recent November examinations of the Society, including the Fourth Place to Miss D. M. Atkinson, were presented with their certificates prior to an interesting paper by Mr. G. H. Austin, B.A., Ph.D., Leeds, on "Some Problems on Taxation," with Mr. Wm. Gaunt, F.S.A.A., Leeds, in the chair.

VISIT OF LONDON MEMBERS TO DISTRICT SOCIETIES.

Mr. Walter Holman, F.S.A.A., a Member of the Council, recently paid visits to the West of England District Society, to the North-West Lancashire District Society, and to the Cumberland and Westmorland District Society. He addressed meetings of members at Bristol, Preston, and Carlisle, and was entertained by the Committees. The subject of his Address was "Education and Registration for the Profession," which he also delivered at a recent meeting of the Incorporated Accountants' Students' Society of London.

On March 24th Mr. Robert Ashworth, F.S.A.A., A.C.A., read a Paper at Leicester before the Notts., Leicester, Derby, and Lincoln District Society, his subject being "Holding Companies."

Mr. Albert Crew has been elected a member of the General Council of the Bar of England, and appointed Secretary to the Central Criminal Court Bar, Old Bailey, London.

The Science of Comparison.

A Lecture delivered before the Incorporated Accountants' Students' Society of London by

Mr. W. J. BACK.
Incorporated Accountant.

The chair was occupied by Mr. Henry Morgan, Vice-President of the Society of Incorporated Accountants and Auditors.

1.—Comparison in General.

Mr. Back said: "Single entry" methods have been supplanted by those of double entry. How is this to be accounted for? "Single entry" is that form of book-keeping which has regard only to the personal effect of transactions; it recognises debtors and creditors, but nothing else. In the circumstances of early trading probably nothing more than this could usefully be done; the larger traders did not really conduct a continuous business in the modern sense at all, rather they engaged in a series of separate ventures. A typical case would be that of a merchant who, alone or jointly with others, bought a ship and fitted it out with a valuable cargo for some distant port; it would return to the home port bringing the produce of the country to which it had gone, and when the venture was over the trader would calculate how much greater or less his wealth was than when he sent out the ship. The result was the only thing that mattered. Comparisons between the expenses of one voyage and the expenses of another would be useless even if made; the voyages were too unlike for detailed comparison. The only thing which approached modern manufacture was the work of the individual craftsman working alone and frequently to order. Only when trading became really continuous did this simple original kind of record show its inadequacy, so that although Paciola expounded the principles of double entry in the fifteenth century no great progress was made in their application until much later.

So the problem of the accountant in those days might be described as a problem in statics. It assumed that the business was for the moment in a position of equilibrium between trading operations, and endeavoured to photograph that position in order to compare it with the state of affairs at some earlier breathing space, and say what was the difference between the wealth of the trader when his ship set out and when it came home. He was hardly concerned at all with the question as to *how* the change had taken place, and, incidentally, this remains the chief difference between the legal and the accounting view of the annual financial statements of a company. The lawyer's interest is in the balance-sheet as a statement of the position of affairs in an assumed equilibrium at a point which is, in fact, as imaginary in economics—and as necessary—as the equator in geography. The business man, on the other hand, is not greatly concerned about the balance-sheet, unless he is buying or selling an interest in the business. His interest is in the trading accounts, and the problem of the modern accountant is to set out, for non-expert eyes to see, how the ever changing factors of revenue and expenditure have been operating during a period under review—that is, the emphasis has shifted from the static to the dynamic, from forces temporarily at rest to forces in motion. It does not matter nearly so much where you happen to be at a given moment—which is what the balance-sheet tells you—as the direction in which, and the pace at which, you are travelling, and that you do not discover from the balance-sheet. It is exactly at this point that the helplessness of records kept by "single entry" becomes evident. It is not that "single entry" fails to show the true financial position of the concern, nor that the profit or loss made in a given period cannot be ascertained from records kept in this mode. With the addition of a careful inventory either can be done, and the result will be identical with that obtained from records kept by "double entry"—if the result of that same inventory be added to the double entry records.

But the inadequacy of "single entry" becomes visible the moment inquiry is made into the elements of progress or decline. Single entry records do not include impersonal accounts, and without these accounts—although changes in a trader's wealth can be seen—no materials are available for effective consideration of the causes of these changes. Dynamics is a comparative study. Pace and direction are discovered by comparison, and there are no materials for comparison.

The dynamic study of business is the detailed examination of its revenue and its expenditure, and the comparison of these in the last period individually with those of an earlier period—or, better and more valuable still, the comparison of the revenue and expenditure actually realised with the revenue and expenditure anticipated in a budget drawn up at the beginning of the period on the basis of the experience of all the previous periods. In this way modern management gets to grips with the tendencies which are carrying the business upwards or downwards.

Comparison is not peculiar to accountancy; improvement in the methods of comparison is the basis of all progress. To the savage there is but one cause of illness because there is but one kind of illness, and he sends for the "medicine man" whose incantations drive out the devil who is the cause of all trouble. Out of this stage there is no advance until some genius, by comparing the illness of to-day with the remembered illness of yesterday, discovers that the illnesses are not the same, and deduces therefore that the causes are not the same—it may be the drains, and not the devil. So emerges medical science, and the practitioner who looks at your tongue, feels your pulse, takes your temperature, compares your symptoms with those known to be typical of various diseases and, by eliminating first one and then another, identifies your particular trouble. Progress in every sphere is the story of increasingly scientific comparisons.

Management by Scientific Comparison.

It is trite to say that the present is a transitional stage in economic history, but the change in process during recent years, so greatly accelerated since the war, from small businesses capable of personal supervision by the owner, to the great combinations of to-day and the still greater combinations inevitable in the future, is the governing fact in current mercantile economics. During the transitional stage overlapping, duplicate and triplicate expenditures, by once separate businesses which are now parts of an imperfectly co-ordinated unit may bring the whole amalgamation down, and this can only be controlled and checked by expert accountancy consideration, detailed analyses and comparisons. It is impossible for any individual, however competent, to keep in personal touch with the ramifications of these vast businesses, so that management is necessarily driven back upon the office as the home of the records which provide a panoramic view of the whole of the operations of the concern. When the transition is complete—supposing that "transition" is not the normal and permanent condition of a reasonable being—and the separate units are welded into a homogenous whole, the tracing of tendencies will be of more importance

than ever before, so that the interest of the progressive trader or manufacturer (that kind of client whom every accountant desires, but who usually has to be educated by the said accountant), which a generation ago was chiefly in the factory or the sales department, must tend to return to the office and its records as that which focuses the manufacturing, trading, and financial operations, and the line of progress must inevitably lead the management in its search for the causes of trading results to the centre where all the strings are collected and classified and compared, and the more the scale of business operations increases the more does the office become the real—in fact, the only—link between the departments. The key to the office records is in the hands of the accountant as the man who understands and interprets figures, and hence the emergence of the accountant in modern commerce.

There are many men to whom a page of figures is just a page of figures:

"A primrose by the river's brink,
A yellow primrose was to him—
And it was nothing more."

But there are others, and accountants (who are born, not made) are of the tribe who look behind the figures on the page and read the meaning in them to which the first sort of person is blind. Now the difference between the qualification of a good accountant and that of a good commercial clerk is that while the latter must be quick at figures the former must understand figures—and these are very different things.

Book-keeping is the recording and classifying of facts; accountancy is the interpretation of the facts recorded; and comparison is essential to interpretation. Out of comparison comes interpretation; the object of interpretation is the formation of judgments and the settlement of policies for the future.

The accountant of to-morrow will certify facts, of course, but he will regard himself as pre-eminently a student of tendency. As an onlooker he will see the game more clearly than those who are in the thick of it can do, and he will see to it that the tendencies are clearly reflected in his periodical statements. He will indicate which way the wind is blowing so that the helmsman may use the force of the wind to carry the vessel on its way, instead of allowing the unrecognised forces to become masters of the situation and throw the vessel on the rocks of Carey Street and suchlike places.

Probably from the point of view of scientific and professional progress the present hectic interest in taxation—inevitable as it is—is unfortunate in that it is distracting attention from the main issues of accountancy to the side line of the settlement of the proper quota of taxation to be paid by the concern. Questions of organisation, costing, and the distribution of the proceeds of industry between the various factors of production are much more really in the line of scientific accountancy than is the formulation of an excess profits duty repayment claim, and it may very well be that if the taxation business could be channelled off to the "taxation experts" the generations to come would regard it as a blessing in disguise. Probably the line of professional advance is not in auditing technique, which has almost reached finality, but in advisory work—accountancy rather than auditing—in improvements in methods of analysis, and especially in improvements in methods of presentation, by which results achieved may be made effective in executive minds.

2.—Illustrations of Comparative Method.

The Financial Statement of Comparative Working Results.

Let us come down from these generalities to the consideration of the methods of comparison and presentation available for the use of accountancy.

Look at this account for 1925, of a concern manufacturing paper bags. (*See Account A at end.*)

At a first view the account looks quite satisfactory. There is a profit of £8,700, whilst in the previous year the balance was only £5,813, and the sales show an equally satisfactory increase.

But there are many questions this account does not answer. For instance, is the increase in sales an increase in the quantities sold, or does it reflect only a fall in the value of sterling? In other words, have prices risen? There were cases a few years ago of chairmen congratulating their shareholders on increasing sales when the sales had actually fallen, but the fall in the value of the pound sterling had concealed it. Then again, have expenses increased out of proportion to the increase in the work done?

Unanswerable questions of this sort lead at first to the insertion of quantities in the trading account, but this is not very satisfactory. It is difficult to follow at a glance relative variations in quantities and in prices, and so by a process of natural evolution a cost sheet has come into use in which production is reduced to an appropriate unit and unitary comparisons made.

Suppose the facts ascertained for the years 1924 and 1925 give the following result. (*See Account B at end.*)

We are now in a much better position to make a comparison between the working of the two years. In this hypothetical example we take for simplicity *pro forma* figures in which the average selling price is the same in both years; and now, when we look again at the figures, reduced to a cost per hundredweight, it is seen that the cost of materials has fallen in 1925 but wages and establishment cost per unit have increased. This, therefore, brings to light a matter of the greatest importance and interest to the management: they will naturally desire that further examination should be made into the causes of these increases—which you will see would never have been brought to their notice if they had merely had a profit and loss account before them. We may suppose, again, that the result of these further inquiries is that errors in allocation are brought to light, and that the finally revised cost sheet is as set out below:—

Revised Cost Sheet.

	Cost per Cwt.		
	1923	1924	1925
	s. d.	s. d.	s. d.
Paper	23 5	21 0	19 0
Wrappers	4	2.8	3
Sundry Materials	3	4.2	2.6
Wages and Manufacturing Expenses	3 6	1 7	1 5.5
Establishment Charges ..	2 6	1 5	1 4
Selling Expenses	1 6	2 8	2 6.5
Profit	3 6	7 9	10 2.4
Per Cwt.	35 0	35 0	35 0

There remains still the problem of the increased selling cost during the last two years.

But suppose the further investigation had confirmed the original figures, it would be evident that the tendency to increasing expenses, unless checked, must be ultimately fatal to the business.

You will see at once that the original trading and profit and loss account was crude. It was a mere book-keeper's statement,

recording and classifying facts, but offering no hint of that interpretation of the facts which constitutes accountancy, or the skilled presentation which assists assimilation.

Questions of the cost of transport by alternative methods, of the capital locked up in stocks carried, and the failure to take cash discounts, as well as a multitude of similar matters, ought to receive accountancy consideration and be brought to light by comparative statements prepared—not annually—but over short periods.

This kind of work is possible over the widest range. There is a suitable unit and technique for every kind of business—even bankers state their working costs per cheque paid—and a careful watching of the items of cost in detail is as important as increasing the turnover, and it is both easier and more neglected.

Without stopping for detailed consideration, just look at another example. An old-fashioned foundry will have on the debit side of its profit and loss account the value of the stock at the beginning, of the raw materials purchased, together with wages and other expenses; and on the credit side the value of its sales—probably of castings and scrap lumped together—and of its stock at the end of the period. But it is possible to go usefully a good deal further than that. (*See Account C at end.*)

This sheet shows the details of four castings in the week ended March 7th, 1926. It indicates the percentage of saleable castings (weight) to materials used each day, and the quantity of coal used per ton of castings produced.

The management will naturally follow very closely, casting by casting, the ratio of loss in weight to saleable castings, and they will also wish to know the ratio of what are known as "wasters" (that is, faulty castings, which go into the scrap for remelting), and they will be no less interested in coal consumption. This production sheet will of course be the basis of a cost sheet, collecting the values against expenses per unit.

These two examples are of value solely as indicating methods of comparison available and the kind of results which may be looked for, and it will be obvious at once that this kind of work calls for the most careful attention to detail. If allocations are wrongly made the results will be worse than useless—they will be positively misleading.

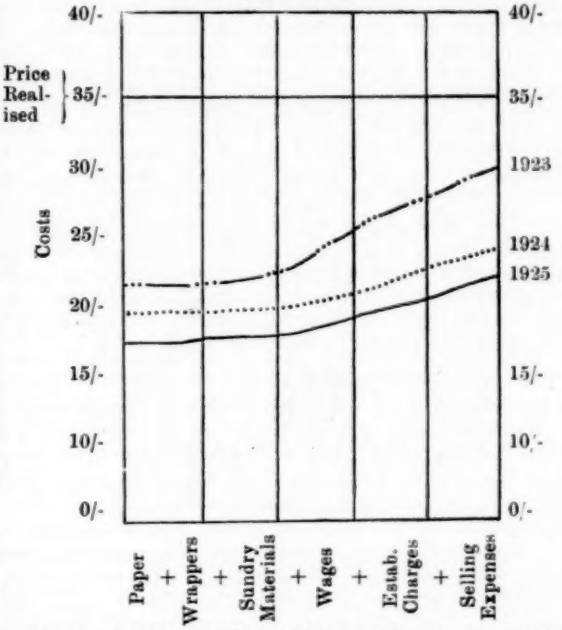
Illustrations of Comparative Working Results.

Statements of figures are very interesting to people who understand them, but there are an extraordinarily large number of people who either regard a sheet of figures with awed respect, which keeps them at an admiring distance, or think it only a shade less undersirable than the plague. If there are many figures and the statement is at all complicated they will do anything rather than consider it. The accountant is therefore forced to adopt other methods of approach, and in seeking what the psychologist calls "points of contact" he may often usefully present relations and comparisons by graphic methods, which will not only be taken in at a glance but will remain in the memory when figures are forgotten. The value of this method of approach is beginning to be appreciated by the advertisement people, and we may yet see accountants certifying as to the rising and falling of lines on a chart.

May I suggest in passing that there is no way of making clear to yourself a complicated accounting system and indicating possible loopholes which need watching equal to that of making a chart of the system. Probably the time will come when principals will expect to find with every set of audit papers a careful chart of the book-keeping scheme. The chart will show in some ink of vivid colour any changes in the system since last audit, and before the chief considers the detail on the papers handed to him he will think over afresh the map of the whole field, and particularly whether the audit as planned covers the present system or the system as it existed last year.

There are a variety of examples of graphical methods in the text-books showing their adaptation to commercial usages. I shall not dwell long on this side of our subject, but just as an example let us return to our paper bag maker and make a cumulative graph of the cost of manufacture in relation to price realised in each of the three years for which we took figures. Ink of a different colour will be used for each year (or other period) and any marked changes will be at once visible to the most casual director.

Paper Bag Company.
Costs and Sales.



Graphs of this cumulative type may be of the greatest assistance in connection with sales, with the control of credit—for example, as showing how far collections of book debts lag behind sales, and whether the "lag" is increasing—factory production, and a multitude of other matters too numerous to mention.

Another matter well worth consideration is the use of graphs for the purpose of tracing causes over a term of years. For example, do changes in the price of wheat in Chicago account broadly, over a term of years, for the fluctuations in the price of bread delivered in London, or have other factors importance in determining those fluctuations?

A graph may be plotted showing variations in the price of a loaf of bread against variations in the price of a quarter of wheat, but this would not be very useful. If, however, the average annual wheat prices for a series of years are tabulated, and a series of indices calculated—which is done by taking one year as a basis and calculating the prices of the other years (or, more probably, months or weeks) as a percentage of that basis—and then the bread prices for the periods are treated similarly, two series of indices will be obtained which can be plotted together, and, whether or not the fluctuations in one series follow the fluctuations in the other will be visible.

This can be carried a stage further by calculating the average price for each of the two series and then plotting

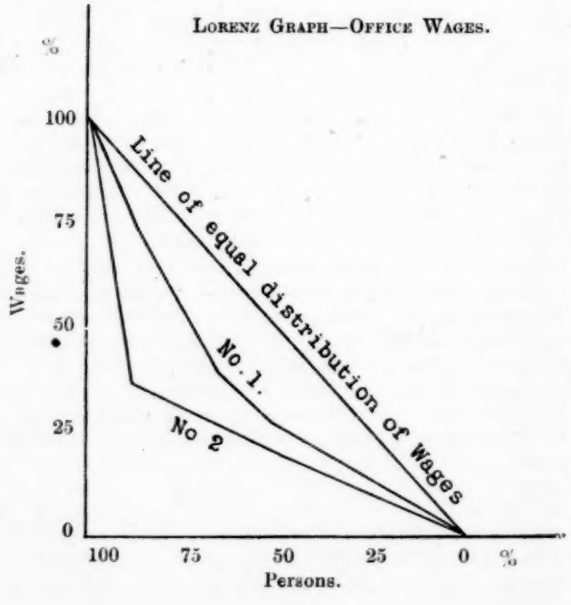
the amount by which the price in each year (or other period) deviates from the average. This will bring diversities of fluctuation into the light, and indicate very clearly the presence or absence of other factors.

Or you might be interested in comparing the price of coal at the pit mouth with its price delivered by the ton to London households.

There is one other illustration to which I will call your attention, and that is the Lorenz curve, invented to study the relative distribution between members of a group.

Suppose the information is supplied that the average of the wages paid in two offices is the same exactly, namely £2 3s. 3d. per clerk per week. The wage conditions of the two offices would appear to be similar, but averages are often misleading. The facts in this case are that in office No. 1 there are twenty employees, of whom ten receive 25s. per week, three 30s. per week, five 55s. per week and one £7 per week. In office No. 2 there are ten clerks, of whom five receive 16s. 6d., two 20s., two 25s., and one £13 per week. The average in each case is 43s. 3d., but a mode of comparison is needed which will show up the real likenesses or divergences. The first step is to prepare a cumulative statement of the clerks and of the wages, in the form set out below, which will show that in the first office ten clerks, or 50 per cent. of the staff, receive only 28 per cent. of the total wages, and so on, and that in the second office the lower half of the staff receive no more than 23½ per cent., whilst 90 per cent. of them receive together only 40 per cent. of the pay. When this table is completed it will appear thus: (*See Account D at end.*)

Next a scale is prepared which will show vertically the wage percentage and horizontally the percentage of persons, so arranged that 0 per cent. on the vertical scale is at the same point as 100 per cent. on the horizontal. A line will now be drawn connecting 0 per cent. on the horizontal scale with 100 per cent. on the vertical; this is the line of equal distribution and represents the curve as it would appear if the weekly wage cheque were shared out equally among the clerks. The plotting of the percentages from the table will now show the extent to which each office deviates from that "ideal" of equal distribution. The chart will appear somewhat as follows:—



In economic studies the Lorenz Curve has been used to show the relative distribution of wealth among the population of a country, and also the relative distribution of land between the inhabitants of the country, but it has many other possible uses. For example, it is possible that in preparing evidence for Government inquiries in relation to wages no objection would be felt to supplying the percentages for such a graph in cases where disclosure of actual figures would be strenuously resisted. It may very well be that for public purposes the relations indicated as between different establishments in the same industry would be more important than the actual figures.

Mathematical Statement of Comparative Figures.

One other example. Occasions will arise where graphical methods are inadequate, and resort must be had to mathematical methods of expressing relations and ratios. Suppose an investigation has to be made of the relation between output and price in a particular commodity. The concern under consideration controls the whole output of the article (as, *e.g.*, a patented article) and so is able to regulate supply. It finds that over a term of years price has been steadily falling and output rising, and it is desired to consider how far these are cause and effect, and therefore whether limitation of output would be to its advantage.

The facts are:—

	Sales.	Price.
1920 ..	10,000 ..	6s. 0d. each.
1921 ..	15,000 ..	5s. 0d. ,,
1922 ..	20,000 ..	3s. 0d. ,,
1923 ..	30,000 ..	2s. 0d. ,,
1924 ..	50,000 ..	1s. 6d. ,,
1925 ..	60,000 ..	1s. 0d. ,,

The sales have increased from 10,000 to 60,000; meantime the price has dropped from six shillings to one shilling. Of course, it is evident at a glance that the increases and falls are in inverse relation to one another, and in practice the problem would never be quite so simple, but it will serve as an illustration of method.

First set out the facts as given in the form below, find the ordinary arithmetic average output per annum and the average price realised, and then the next step is to find what is known as the "standard deviation" from that average in each case and express that deviation as a percentage of the average. The two percentages can then be compared.

The average annual output is approximately 30,000 and the average annual price is three shillings. Next set out the amount by which each year's output and each year's price differs from the average, either above or below; square those deviations, and then add the squares; the totals so obtained have to be divided by the number of items—in this case six—and the square root of the quantity obtained must be extracted. This is the "standard deviation." For output the figure is 18,371, and for price it is 1.8371 shillings; these two must now be expressed as percentages of the averages on which they are respectively based. In each case the percentage will be found to be 61.23. This is what is known as "perfect correlation." The conclusion is that price has varied exactly as output, and the assumption is that price can be controlled by controlling output. Whether such a course would be to the advantage of the seller is of course another story requiring the consideration of the relative burden of establishment charges, the operation of the law of increasing or diminishing returns, and other factors. (*See Account E at end.*)

This method is not quite so exact as Karl Pearson's Coefficient of Correlation, but it is very nearly so, and it will be found sufficient for all ordinary purposes.

3.—Principles of Comparison.

Our subject was to be "The Science of Comparison," that is to say, the principles regulating the making of comparisons. We can probably now deduce a number of principles from the examples we have considered.

We have considered the line of evolution in scientific accountancy and observed it to be pre-eminently the science which compares and by means of comparison interprets figures; we have noted the progressive accuracy of its methods of comparison, and also that its present problem is that of bringing home its results to the minds of the interested parties. We then passed on to consider examples of the use of graphical methods for the purpose of assisting visualisation.

The principles regulating the work may be summarised as follows:—

1.—Absolute dependence upon exact definition of terms. If the book-keeper has included catalogues with printing and stationery in one year and in advertising the next year—and it has been passed in the audit . . .?

2.—Like must be compared with like. Suppose you are making a comparative statement of the profits of three businesses, and in the first you take the profit as the income tax inspector defines it, in the second the profits available for dividend, and in the third—which happens to be a partnership—the balance shown by their account, which is after charging partners' salary and interest on variations of capital . . .?

3.—The sense of proportion must be maintained, both in your own mind and in the form of your statement. You have to isolate individual factors for separate study, but one fact is never the full story about anything—not even if it is duly certified. Also illustrations may be so drawn as to violate the rule of proportion.

4.—Comparisons must not be based on insufficient data. This is a very common error in logic, and is rather like trying to stand a pyramid upon its apex. An example is the Chairman's statement that sales had gone up, when in fact they had fallen, but it was the post-war boom. Prices had gone up, and the credit to profit and loss account was higher.

5.—Comparison is not in itself interpretation. No kind of instrument, mathematical or otherwise, will do away with the necessity for intelligence and thought. It is sometimes possible (particularly in politics, but also in commerce) to draw opposite conclusions from the same figures.

An American Judge is reported to have replied to counsel's statement that "figures cannot lie," by saying "No; but liars can figure."

Discussion.

Mr. C. E. WAKELING, Incorporated Accountant: With regard to comparisons, I quite appreciate what the Lecturer has told us, that it is no use comparing two things unless we analyse the fluctuations of the constituents of each thing. I should like him to explain a question I put forward last week: as to how it is, when one compares the price of export coal with the price of home consumed coal there is such a violent fluctuation. I read in an influential newspaper that the price of export coal was quoted at £1 per ton and the price of home consumed coal was £4 per ton. I believe Mr. Back comes from the centre of the coal industry, and perhaps he can explain to us how we can get that £1 a ton coal. (Laughter.)

Mr. BACK: I am very much obliged to my friend for correcting the statement about students, and I accept it from him that everybody here is a student. I am obliged to him also for that additional information as to Lord Darling. It is quite good to know that there are some home products that are as good as the Americans. I heard the story told of an American, but I shall be very pleased to attribute it in future to an Englishman. As to coal, I wish he could tell me where I could buy coal at £1 per ton. The price we have to pay for our house coal is a good deal more than £1 per ton, and I am rather wondering where the newspaper got its information. From which port was the coal exported?

Mr. WAKELING: It did not say. It simply said that the export for September was 5,000 tons, of the value of £4,000, and its comparison with the export for the same month in the previous year.

Mr. BACK: I suggest that that coal must have been exported to a subsidiary company. The Chairman adds the explanation that it was probably exported under a contract entered into a long time ago.

Mr. W. D. MENZIES: I have been looking forward to this lecture because the title is so provocative, and I have certainly not been disappointed. As to Mr. Back's general statements, I rather think he must have swallowed Francis Bacon whole when he was at school, because he has given us such a eulogy of the inductive method. Almost his last remark was that no advance is made without analysis, and an increasingly careful analysis and comparison of facts. It is quite certain that the development of modern accountancy is entirely dependent on that, but there is a very important faculty which I think he must have meant by "commonsense"; that is to say, in dealing with these facts and these analyses, one of the most important powers of the mind is the ability to project a hypothesis and then set to work upon it and prove it. I suggest that more advance in science has been made by the creation of hypotheses than by just the working out of them by the comparative method. There is one minor point which I will mention now. In his cost sheet I notice he shows a cost per cwt. of bags produced in shillings and pence and decimals of a penny. Does he not find that, as a rule, statements are better made in pence and decimals? It is quite a minor matter, but one which I think it is worth while considering.

Mr. BACK: I am obliged to my friend for the additional illustration of the value of the comparative method by hypothesis. Hypotheses come out of comparisons. People have made comparisons which have led them to discover that an old hypothesis is not good enough, and they then make a new one. As to whether it is advisable to show shillings and pence, or to show shillings and a decimal or pence and a decimal, I imagine that depends entirely on the people with whom one has to deal. One has to bear in mind that these things are made up for particular people; you know who the people are, you picture them in your mind, and you make up your statement. My experience is that very few people talk about decimals if they can help it. If you put down 19.5s., quite a lot of them would think "Does he mean 19s. 5d.?" I am sorry for their education, but that cannot be helped. Of course, where you do find a man who understands decimals, I should certainly give him whichever thing he could swallow most easily.

Mr. W. HOLMAN, Incorporated Accountant: Before emphasising one or two points raised by the Lecturer I should like to congratulate him not only on the very comprehensive paper he has given to us, but also on the admirable way in which he delivered it. It is a real treat to be able to sit in this room and listen to a lecture without feeling sleepy! The points to which I should like to refer have probably been dealt with incidentally, but they are sufficiently important to justify emphasis. The first is, that in analysing figures and ascertaining costs one should not stop at the financial side of it, but go back, if it is possible—and in most cases it is possible—to the quantities used. Very often cost figures do not disclose all the facts which would be useful. For example, take the cost of fuel used in a particular process; it might have gone down, but that might be due either to a reduction in quantity used or to a change in the cost of that fuel, and unless you get down to the actual quantities used you have not got to rock bottom. The second point I would like to deal with is that which probably was covered by the Lecturer's statement about the interpretation of the facts when ascertained. When comparative figures are obtained, and when they are compared,

there are still other factors quite outside the figures themselves which must be taken into account if the figures are to be correctly interpreted. The present strike is only one illustration of many which could be mentioned of the powerful effect outside factors may have on the figures. I need not enlarge upon that, because it is perfectly obvious; I only emphasise it owing to its very great importance in interpreting the facts once they have been adduced.

Mr. BACK: I am very much obliged to my friend for emphasising the question of the value of quantities. I endeavoured to do so. You will see in the examples before you that in both illustrations there was considerable stress laid on the weights and quantities used. It is of vital importance that these quantities should be indicated; it is perfectly useless tabulating any figures of any sort unless they are set in relation to the amount of work done and the production, whatever it may be. I stressed the fact that there were always factors that do not appear in your figures. When you have set out the figures of anything there are always other sides to the case, and in your explanations you want to get an all-round view of the thing, to look at the whole of the thing you are dealing with, and endeavour to see that not only the financial figures but the whole of the facts are in the minds of the people with whom you are dealing.

The CHAIRMAN: Very frequently at these lectures we get animated discussions. I would almost divide the lectures that are delivered at this Society into those lectures that you can talk about and those lectures that give you something to think about. It is very difficult to talk at a moment's notice upon a lecture of this kind, because there are so many points in it which you have really to think about rather than talk. But you will all agree with me that Mr. Back has dealt in a most able manner with his subject. He has impressed upon you the importance of presenting the work of the accountant in such a manner that it is readily understood by the manufacturer or the trader for whom you are acting, and that it should be in such a form that it readily permits of comparison. That is very important in a manufacturing business, for if you are going to make the fullest use of your work as accountants, you want to have your results at short intervals. It is no use waiting until the end of the year; you want to know month by month, in some cases week by week, what results are shown by your accountancy department. I notice that Mr. Back gave some figures relating to a foundry. I had in mind one of the most successful foundries in this country, for which I have acted as auditor for many years past. That foundry took out figures every day. Every day the management had the figures showing the cost of the molten metal, and I have always been surprised at the exact matters in regard to which they got out figures for comparison—such as the weekly percentage of defective castings—those that had to go back into scrap. Their weekly returns constituted quite a formidable document, for they had from the office figures relating to every department on almost every matter connected with the business, and, as I have told you, it has proved to be a wonderfully successful concern. There was just one matter that Mr. Holman mentioned and the Lecturer replied to—that was coal, the cost and the quantity. I do not know if any of you have had much experience of the conditions during the coal strike, but there is another factor introduced, and that is quality. If you had experience of the result to be obtained from the foreign coal which is being imported, as compared with English coal, which has generally been in use in the past, you would find that quality is almost a more important factor than quantity.

A vote of thanks to the Lecturer, proposed by Mr. WAKELING and seconded by Mr. MENZIES, was unanimously passed, and Mr. Henry Morgan was thanked for his conduct in the chair.

Dr. **A.—TRADING AND PROFIT AND LOSS ACCOUNT.** *Cr.*

1924		1925	1924		1925
£15,750	To Paper	£19,000	£26,257	By Paper Bags .. .	£35,000
181	,, Wrappers	250			
263	,, Sundry Materials	325			
1,188	,, Wages and Manufacturing Expenses	2,185			
1,062	,, Establishment Charges	2,000			
2,000	,, Selling Expenses	2,540			
5,813	,, Net Profit	8,700			
£26,257		£35,000	£26,257		£35,000

B.—COST SHEET.

	1925	1924
Saleable Bags Produced .. .. cwts.	20,000	15,000
Average Price Realised .. .. per cwt.	£1 15 0	£1 15 0

	Totals 1925		Cost per cwt. of bags produced.	
	Cwts.	Values.		
			s. d.	s. d.
Paper	19,000	£19,000	19 0	21 0
Wrappers	500	250	3	2.8
Sundry Materials	500	325	3.9	4.2
Wages and Manufacturing Expenses	—	2,185	2 2.2	1 7
Establishment Charges	—	2,000	2 0	1 5
Selling Expenses	—	2,540	2 6.5	2 8
Profit	—	8,700	8 8.4	7 9
Cwts.	20,000	£35,000	£1 15 0	£1 15 0

C.—Foundry Production Sheet, Week ended March 7th, 1926.

1926.	MATERIALS. Coal. Tons. Cwts.	Pig Iron. Tons. Cwts.	Scrap Iron. Tons. Cwts.	Sundry Materials. Tons. Cwts.	Less Scrap Recovered. Tons. Cwts.	PRODUCTION. Saleable Castings. Tons. Cwts. Qrs.	Per cent.	Per cent.
Mar. 3 ..	5 4	15 0	5 1	0 5	3 5	13 7 3	78.33	
,, 4 ..	8 14	26 15	8 0	1 0	5 12	25 3 2	83.43	
,, 5 ..	9 14	25 11	12 0	0 14	5 13	27 14 1	85.17	
,, 6 ..	9 9	25 0	9 10	0 12	4 10	25 0 0	81.70	
		92 6	34 11	2 11	19 0	91 5 2		82.67
		34 11	Scrap Iron.					
		2 11	Sundries.					
						Loss 19 2 2		17.33
		129 8						
		19 0	Scrap Recovered.					
		110 8	Net Usage.			110 8 0		100.00
	33 1	= 7¼ cwt. per ton of Castings.						

D.—Office Wages Statement.

No. 1. Number and Rate.	No. 2. Number and Rate.	CUMULATIVE TABLE. No. 1. Persons. No.	Persons. Per cent.	Wages. Amount. £ s. d.	Wages. Per cent.	No. 2. Persons. No.	Persons. Per cent.	Wages. Amount. £ s. d.	Wages. Per cent.
10 @ £1 5s.	5 @ 16s. 6d.	10	50	12 10 0	28	5	50	4 2 6	23½
3 @ £1 10s.	2 @ £1	13	65	17 0 0	39	7	70	6 2 6	28½
5 @ £2 15s.	2 @ £1 5s.	18	90	30 15 0	72	9	90	8 12 6	40
1 @ £5 10s.	1 @ £13.	19	95	36 5 0	86	10	100	21 12 6	100
1 @ £7.		20	100	43 5 0	100				
20	10								
Average Rate £2 3s. 3d.	Average Rate £2 3s. 3d.								

E.—Correlation of Output and Price.

Year.	OUTPUT. Quantity.	Deviation from Average.	Deviation Squared. Millions.	PRICE. Price. s d	Deviation from Average. s. d.	Deviation Squared. s. d.
1920	10,000	20,000	400	6 0	3 0	9 0
1921	15,000	15,000	225	5 0	2 0	4 0
1922	20,000	10,000	100	3 0	—	—
1923	30,000	—	—	2 0	1 0	1 0
1924	50,000	20,000	400	1 6	1 6	2 3
1925	60,000	30,000	900	1 0	2 0	4 0
	185,000		2,025	18 6		20 3
	Average, say, 30,000			Average, say, 3 0		

Std. Deviation .. .. Output $\sqrt[2]{\frac{2,025,000,000}{6}} = 18,371$

Price $\sqrt[2]{\frac{20.25}{6}} = \frac{\text{s.}}{1.8371}$

$\frac{\text{Std. Deviation}}{\text{Average}} \times \frac{100}{1}$ = Output $\frac{18,371}{30,000} \times \frac{100}{1}$ = 61.23 per cent.

Price .. $\frac{1.8371}{3} \times \frac{100}{1}$ = 61.23 per cent.

Birmingham Chartered Accountant Students' Society.

ANNUAL DINNER.

The annual dinner of the Birmingham Chartered Accountant Students' Society was held at the Queen's Hotel, Birmingham, on March 4th.

The PRESIDENT (Mr. James C. Parsons, F.C.A.) was in the chair. There were also present: The Right Rev. Bishop Hamilton Baynes, D.D., Sir Josiah Stamp, G.B.E., D.Sc., Mr. P. J. Hannon, M.P., Mr. Registrar A. L. Lowe, M.A., LL.B., C.B.E. (Registrar, Birmingham County Court and District Registrar, High Court of Justice), Mr. R. H. March, F.C.A. (Vice-President, Institute of Chartered Accountants), Mr. Thomas Keens, F.S.A.A. (President, Society of Incorporated Accountants and Auditors), Mr. C. Herbert Smith, F.C.A. (President, Birmingham and District Society of Chartered Accountants), Mr. H. T. Ledsam, B.A., F.C.A., Major P. H. Carter, F.C.A., Professor C. E. Smalley Baker, M.A., LL.B., Mr. T. Cumberland, Mr. C. J. Phillips, Colonel Deakin, D.S.O., Mr. P. Barnes (H.M. Inspector of Taxes), Mr. A. A. Garrett, B.A., B.Sc., Mr. T. H. Platts, F.S.A.A., Miss C. Aston, Miss L. M. Harris, Mr. F. J. B. Gardner, F.C.A., Mr. Theodore D. Neal, F.C.A., Mr. D. Neal, A.C.A., Mr. A. C. Ridgway, F.C.A., Mr. A. Short, F.C.A., Mr. W. H. Newton, F.C.A., Mr. H. H. H. Walshe, F.C.A., Mr. A. A. Miller, M.C., F.C.A., Mr. D. Tanfield, F.C.A., Mr. J. Whitehill, F.C.A., Mr. J. M. Massey, F.C.A., Mr. Clement Keys, F.C.A., Mr. C. G. Keys, F.C.A., Mr. H. A. Pepper, F.C.A., Mr. E. Marston Rudland, F.C.A., Mr. Howard Heaton, F.C.A., Mr. Brian Manning, A.C.A., Mr. A. W. White, A.C.A., Mr. C. Leslie Hughes, A.C.A., Mr. W. H. Furness, A.C.A., Mr. H. H. Groves, A.C.A., Mr. H. W. Neep, A.C.A., Mr. J. S. Cooke, B.A., A.C.A., Mr. T. S. Love, A.C.A., Mr. A. D. Coventry, A.C.A., Mr. E. T. Peirson, F.C.A., Mr. H. J. Gittoes, A.C.A., Mr. T. A. Cotterill, A.C.A., Mr. W. H. Castle, A.C.A., Mr. A. R. Round, A.C.A., Mr. R. H. Whitehill, B.Com., Mr. J. T. Chaplin, A.C.A., Mr. E. W. Newman, A.C.A., Mr. R. L. Biggs, A.C.A., Mr. G. Haring, Mr. R. T. Janney, A.C.A., Mr. F. H. Pickering, A.C.A., Mr. V. L. Thompson, A.C.A., Mr. A. E. Jacobs, A.C.A., Mr. D. Swain, A.C.A., Mr. N. G. Wigley, A.C.A., Mr. F. Bennett, B.Com., A.C.A., Mr. H. Kennewell, A.C.A., Mr. E. G. Davies, A.C.A., Mr. A. E. Phillips, A.C.A., Mr. D. J. Hadley, A.C.A., Mr. E. J. Stanton, A.C.A., Mr. J. A. Garland, A.C.A., Mr. W. E. S. Salt, A.C.A. (Chairman of Committee), Mr. W. F. Wyatt, A.C.A., Mr. H. V. L. Heaven, A.C.A., Mr. G. F. Batty, Mr. L. Bodin, A.S.A.A., Mr. E. B. Marston (Hon. Treasurer) and Mr. A. E. Kirk (Hon. Secretary).

After the loyal toast had been heartily received,

Sir JOSIAH STAMP, G.B.E., D.Sc., in proposing the toast of "The Institute of Chartered Accountants," said: I suppose on an occasion like this there is a conventional opening gambit for the luckless wight who has to start off—something to the effect that he has been wondering why on earth he was chosen to fill this high office, and so on and so forth; but I don't wonder—I know. (Laughter.) I know why I have been chosen for this; it is perfectly clear. When those who made arrangements for the toast list were turning over the question as to who should propose the respective toasts, they said: Well, here is this highly disputed question, a question of public interest, as to whether a Chartered Accountant is a public danger or a public benefactor; who are we going to put up? Here is a man who has already committed himself on the subject—(laughter)—he has already said kind things about us and, not being a politician, he must be reasonably consistent—(laughter)—therefore we are safe in his hands. But I think, despite the fact that I have publicly committed myself, that I am entitled to be heard again on a subject like the Institute of Chartered Accountants.

My earliest business recollections have had to do with accountancy. I remember when I first set up for myself as H.M. Surveyor of Taxes in a country town there had recently set up the first and only Chartered Accountant in that town. To go to a so-called accountant before that date meant for the appellant much more trouble than if he had not done anything of the sort—(laughter)—but with the advent of the Chartered Accountant all was altered. The magic doors were opened. In fact, I was sometimes suspected of being a sleeping partner because, in my youthful vigour, as assessments went up and people resorted to my friend, we did a merry business. (Laughter.) But I must not dilate more on my past in that direction, because my friend Percy Barnes is here, and he knows a lot about my revenue infancy. (Laughter.)

I have another connection with the profession of which I am proud. I am a member of the sister Society. Whether I was admitted to keep me out of danger, or what, I don't know; I think it was this: having for a long time been examining young hopefuls, they assumed that I myself could pass the examination. However, whether I had the knowledge or not, the principle of the thing was right. (Laughter.)

I am giving the toast, or I am supposed to be giving the toast, of "The Institute of Chartered Accountants," and yet I am at a dinner of the Students' Society, and I am torn between the desire to tell the older members what I really think about them—(laughter)—and, on the other hand, to do the very opposite and to encourage the younger ones. (Renewed laughter.) You will agree there are two different sides to the question.

Well, when one thinks of the immense progress that accountancy has made in this country in the last thirty years one would be tempted to say (both of the Institute and of the Society) that accountancy has grown to maturity and that nothing more in the way of achievement is before you. But I am quite sure that, glorious as the progress has been in the last thirty years, it is nothing to what the development is going to be in the next thirty. After due deliberation I can assure you all that accountancy in the past is as nothing to what it is going to be in the future. Because every development of modern life—economic, social, industrial—is providing new tasks which the accountant alone can satisfactorily discharge. Because he has in some extraordinary way solved the riddle, or made a reconciliation between two things, that of faithfully serving his client and yet, *pro bono publico*, being regarded as the unbiased referee of facts. (Applause.) That is a remarkable achievement, and it is because of the mutual distrusts and complications of modern life that the unbiased referee of facts is going to be an absolute essential of the future.

With regard to the relation with fiscal matters I don't think there is much ground to be won; the accountant is already in possession of the field. I don't know what the effect would be upon the Revenue if Chartered Accountants ceased to exist; I am quite sure the cost of assessment and collection would be quadrupled; that is perfectly clear. Here is this unbiased referee who can be trusted thoroughly for the facts he gives, and distrusted equally for the conclusions and arguments he uses. (Laughter.) I am quite sure that this ability on the part of the Revenue to rely upon the facts as stated is of immense value to the country as a whole, and an immense economy in the fiscal administration. I hesitate to

say what the increase of evasion would be if accountancy were withdrawn.

My investigations into accountancy in Germany, and of the fiscal administration there, make me say with conviction that practically the whole difference between the efficiency of tax administration in Germany and in this country is the difference between the status, the standing and acceptance of accountants in the two countries. As you know, the professional accountant in Germany is not nearly so widely accepted by the business man as here. The position is not so recognised, the principle is not accepted in the same way. What is more, the accountant there thinks that he has discharged his functions if, by force or otherwise, he has fitted up figures and accounts in accordance with the ancient commercial code of the time of Napoleon, and the fact that he can depend upon that to make matters square has relieved him from the necessity for thinking.

Continuing, Sir Josiah said they were already confronted with tremendous developments in trustification and amalgamation, and it was quite clear that the process of consolidation was going to be the only solution for the defects of many industries. All were familiar with the defects of the coal industry, and the way in which consolidation and co-ordination on the production side were necessary, while something even more drastic was necessary on the side of distribution. Those operations demanded for their fair discharge the impartial referee of facts. The advent of the consolidated balance-sheet and accounts for co-ordinated entities, the advent of this higher appeal of inter-related accountancy, was something that had to be developed in the future, and it would have to be developed by them. It was a comparatively new feature in this country, but with the progress of amalgamation and consolidation it was undoubtedly an accountancy problem of the future.

They had looming on the horizon the question of price regulation and safeguards against abuses in distribution, and other matters, all of which required, before any blame could be attached or any verdict pronounced, an exact statement of the facts and figures, and they in the accountancy profession must figure in it. In the past accountancy had been regarded as the parent, so to speak, of scientific costing, and scientific costing was extraordinarily valuable in any individual factory for the purpose of efficiency and price computation. But when you had large amalgamations trying to co-ordinate manufacture, the question of comparative costs entered in, and process costs became the engine of management, and almost the sole element of comparative management.

The science of comparative costs in connection with highly developed processes was carried out in relatively few concerns in the way he (the speaker) was thinking of, but it was the only way in which great amalgamations and fusions were going to justify themselves and be efficient in the future. It was no good people getting together and wanting a lot of facts; they must discover the economic merits and demerits in respect of them. That could be done by means of comparative costing, and that again was a field in which the accountant must lead the way.

They all knew the bee he had in his own bonnet, viz, the development of realistic economics, and sometimes he had doubts as to the part the professional accountants would play in this. As he saw the enormous progress they were making along the lines to which he had referred, getting tract after tract of social economic and industrial life within their survey, he sometimes wondered whether the profession was growing upon its imaginative side.

"Facts are one thing," declared the speaker, "but the interpretation of them for the betterment of society is quite another, and often some power of analytical discrimination of underlying forces is needed. Let it not be said of the accountancy profession that it cannot see the wood for the trees . . . You have an unrivalled opportunity of highly imaginative social work, and I hope the profession will develop upon that line. At the moment I must say frankly I am disappointed in the real output of imaginative thinking on social questions. I am disappointed in the output of the profession as a whole. Facts are one thing, and you are magnificent in your facts, but the public have got to be taught how to interpret facts. Interpretation is everything: after all, no industry was better documented, there was no industry about which the facts were better known than that of the coal-mining industry, and yet look at the interpretation placed upon them by the different walks of life, the different classes of the community. We have to develop the science of the interpretation of facts, and that is not so easy. It is one thing to be continually absorbing new ideas in regard to human life and the great engine of modern science, and another thing to be that forceful attractive medium, able to interpret those facts and give the great social solutions for which the world is yearning.

"But I must come back to my toast. There is little to comment upon in regard to the health of the Institute, but I do ask you to join with me in wishing that its health may be long continued. (Applause.)

Mr. R. H. March, F.C.A., Vice-President of the Institute of Chartered Accountants, in responding to the toast, said that after such an eloquent speech from Sir Josiah Stamp the few words he could utter would fall very flat. Sir Josiah, as they all knew, was a past-master of his subject, and his subject was economics. "I had the privilege years ago," continued the speaker, "of meeting Sir Josiah Stamp on the Board of Referees, and I would like to say that I think he is the greatest friend that we accountants have ever had—(applause)—in that he invented the excess profits duty, and that has helped us immensely. (Laughter.)

I owe the very kind invitation from your Chairman to the fact that our President, Sir Arthur Whinney, is enjoying the sun of Egypt, which is probably much better than you get in Birmingham. (Laughter.) Sir Josiah Stamp was careful not to refer to figures, and I feel the same diffidence myself, because I always understood that of recent years at any rate, in Birmingham, it is a dangerous thing to mention figures unless they are fully draped. (Laughter.)

That reminds me of the comparison of a woman's dress to a wire fence—it is some sort of protection but does not impede the view. (Laughter.) I want to bring that in because I want to preach a short sermon, taking for my text, "Impeding the view." In all seriousness I want to say that the Government of the Union of South Africa to-day is seeking to impede the view—(hear, hear)—by bringing in a Bill for the registration of accountants within the Union, no matter what their qualifications are, and entitling those persons on the register to use the title "Chartered Accountants." We are taught that imitation is the sincerest form of flattery, but I think we can say, and say fairly, that we prefer not to be flattered, and we must be forgiven if we take such steps as are open to us to endeavour to get rid of that Bill.

> Who steals my purse steals trash,
> But he that filches from me my good name
> Robs me of that which not enriches him
> And makes me poor indeed. (Applause.)

Mr. C. Herbert Smith, F.C.A., President of the Birmingham and District Society of Chartered Accountants, then proposed the toast of "Kindred Professional Bodies."

He said: The Committee of our Students' Society is to be congratulated on its precise definition of this toast. If it had been described only as "kindred professions" I should have been excluded from reference to the Society of Incorporated Accountants and Auditors represented here to-night by its distinguished President. On the other hand, "kindred bodies," with the omission of the word "professional" might have permitted me to include any society desirous of serving the unfortunate.

I therefore bow to the decree of the Students' Committee and confine my toast to those limits, which that Committee has at once circumscribed and expanded under the term of "kindred professional bodies." Such bodies specially represented here to-night consist of the Society of Incorporated Accountants and Auditors, the Law Society, and the Institute of Bankers. Here again I discern the subtle mind of the Students' Committee in its choice of the good old Saxon word "kindred," which denotes close and congenial family relationship—for have we not with us our brothers, the Incorporated Society, our paternal guardians the lawyers, and our bankers, the custodians of our pledged securities, sometimes affectionately referred to as our benevolent relative, "Uncle." Members and potential members of our Institute here to-night will join me in fraternal greetings and good wishes to the Incorporated Society. We have objects in common in our desire for the elevation of our profession as a whole, and for the provision of the best possible education of our students. I have read with much interest the memorandum of the objects for which the Incorporated Society was established 40 years ago. When I came to Clause F I felt constrained to apply for admission. That clause states that one of the objects of the Society is "to assist necessitous members, and to make any contributions out of the surplus funds." The only possible catch may be the question of the adequacy of the surplus funds to deal with such a deserving case as my own.

It affords me particular pleasure to be asked to couple with the toast the names of Mr. Thomas Keens, President of the Society of Incorporated Accountants and Auditors, and of Mr. Arthur L. Lowe, Registrar of Birmingham County Court and District Registrar of the High Court of Justice. Mr. Thomas Keens has earned distinction in public work as a Member of Parliament and as a county alderman. He took a prominent part last year in the International Congress of Accountants at Amsterdam, and his Society is to be congratulated on the possession of so distinguished and able a President. We ask him to accept from us our best wishes for a happy and successful period of office. Mr. Registrar Lowe is an outstanding personality in Birmingham, respected and beloved by all of us. For many years he has proved himself to be an ideal Registrar of a Court which is one of the largest and most important of its kind in the county. He is alike happily equipped with great knowledge of law and procedure and with sound judgment of men.

I ask you to drink most heartily the toast of "Kindred Professional Bodies," coupled with the names of Mr. Thomas Keens and Mr. Registrar Lowe. (Applause.)

Mr. THOMAS KEENS, F.S.A.A., President of the Society of Incorporated Accountants and Auditors, in replying to the toast, said some little time ago, when in the North of England, he had a similar experience, but coupled with the toast were the names of the Inspector of Taxes and the Official Receiver. (Laughter.) He inquired whether they were to be considered as the best friends of the profession or whether it was merely a case of cause and effect. (Laughter.)

He desired to acknowledge on behalf of his Society most gratefully the graceful terms in which the toast had been proposed by Mr. C. Herbert Smith. They had been good enough to drink their health. He could only say: "We are very well, thank you." With respect to the Society, I can say we are pretty vigorous; we have many activities, and I find, personally, very serious demands on my time. We have, as Mr. Smith said, many points of contact, and our differences are few. Our examination standard is high, and if you can suggest how we can make it higher we will. (Laughter.) The marking is severe; there were only 43 per cent. passes on the last examinations, both Final and Intermediate; we demand the same standard of conduct from our members, and we exercise the same discipline over them. There is one difference, of course, and doubtless here I may find criticism of the Society—that is in the admission still into the Society without articles, for the Intermediate after six years, and for the Final after nine years. I am aware, of course, that the differences of opinion are not confined to you; they are within the Society, but I might venture perhaps to submit to you one point of view which has probably escaped your notice. That is, so long as those conditions obtain, we have a complete reply to those newer societies who claim that their existence is necessary because accountancy is an absolutely closed profession.

It may be news to some of you (those who are actively concerned in the organisation, either of the Institute or the Society, are well aware of it) that within the last week there has been before the Senate of the Irish Free State a Registration Bill promoted by the Irish Institute and the Society, and notwithstanding the fact that there are only fifteen members in one minor society and four in another, the Senate has thrown out that Bill on the ground of sympathy with the poor man whose parents could not afford to pay the premium for his entry into the profession. It is therefore well, I think, that we should in shaping policy remember the view that may be taken not only by the Legislature of the Irish Free State, but by any other Legislature to whom we may have to go.

I am very glad that Mr. March mentioned the question of South Africa. The Society has been equally concerned with the Institute in the proceedings in South Africa. Our President last year made a long journey in order to investigate the conditions on the spot. It will require the utmost vigilance of the Councils of the Institute and of the Society to protect the interests of that large number of our members who are practising in those countries. (Applause.) I say that our paths in the Institute and the Society lie side by side. When any Government measure is proposed to be introduced and accountancy questions are involved, they require from us a joint memorandum. The Private Bills Committee of the House of Commons takes exactly the same view, and it is very satisfactory to know that in the Private Bills Committee of the last session there was a considerable number of Bills containing audit clauses specifying Chartered or Incorporated Accountants. The Dominion Governments invoke the assistance of both the Institute and the Society for advice as to appointments connected with accountancy.

At the International Congress which has been referred to, your President and myself (in the absence of my President in South Africa) were on the rota as representing accountancy in this country, and that Congress showed us many things. It showed us there was a tremendous gulf between organised accountancy in this country and any other country. Holland probably comes next, but there the problem is just the same as here: one big society, and any number of competitors springing up day by day, and no legal protection for the qualified accountant. Germany probably comes next.

America was hopelessly chaotic; 49 different States, 49 separate qualifications, no qualification of any State available in the next State. Then there were various institutes of works accountants springing up in that country, informing us that they were necessary because the majority of firms in the States did not employ accountants. Then we had a tremendous surprise: a Roumanian delegate got up and said he represented 20,000 practising accountants. Sir William Plender turned to me and said: "Are there any accountants in Roumania? I thought we did most of their work." (Laughter.) Then it transpired that this gentleman had included in his 20,000 all the clerks in the county councils, town councils, borough councils, or anybody else, quite independent of the functions which they fulfilled.

Your Council, as ours, I have not the slightest doubt, is assailed by the common plaint of "Why don't you do something on this or that particular question? What are you going to do about it?" I have been for 25 years in local government; it was asked quite regularly there, and in Parliament I am sure Mr. Hannon will agree it is asked with still more insistence. If I may venture to make one remark to the younger students (the older men know—they have found it out for themselves), I would say that the field of operations of the governing body of any professional or scientific society is strictly limited, and that success in the main is determined by personal qualities, by brains, by industry, and by character. Those who have seen Shaw's play "Androcles and the Lion" will remember that frightened, timorous little chap being bold and going into the arena to face the lions because he says: "I should not like to let the tailors down." And that really is the team spirit which everyone of us must applaud. By that the profession will be ennobled, and we shall gain the respect of that public upon which we all depend.

I should like to put to you for your consideration as to how far further co-operation is possible, or desirable, between the Institute and Society. It has been reported that there is considerable economic waste in delivering lectures to students of both the Institute and the Society on practically identical subjects to small bodies, when by a joint meeting larger numbers could be obtained to the satisfaction of everyone, particularly the lecturer. This problem has presented itself to our Sheffield friends and, as a result, joint meetings have been arranged between the Chartered and Incorporated Accountants' Students' Societies, the Chartered Secretaries, and the Institute of Bankers. Some eminent men have been obtained, knowledge has widened, everybody appears satisfied —and, of course, money goes further.

This does not, of course, apply to London where the attendance at the meetings of each body is sufficient to fill the city halls available and to satisfy any lecturer, however eminent. But there is the problem of students in less thickly populated districts; we have recently sanctioned the formation of a District Society where geographical difficulties must preclude the possibility of any but a small audience. Justice to our students demands an extension of the system; obviously we all want for our students the best, and skilled lecturers are limited in number. Therefore this seems a field in which further co-operation may be found possible without in any way derogating from the dignity or individuality of the respective bodies—several bodies acting together, to the advantage of all and to the disadvantage of none. (Applause.)

Mr. Registrar LOWE, M.A., LL.B., C.B.E., Registrar Birmingham County Court, and District Registrar of High Court of Justice, said it gave him great pleasure to reply on behalf of the Law Society. He could not imagine any society (the Birmingham Law Society excepted) which passed through a year of office without holding an annual dinner. In this country toasts and speeches were the rule, although according to a speech made by the Chinese Ambassador the other day they gave up after-dinner speaking in China 3,000 years ago. That remark, by the way, was for the benefit of an Englishman at the same dinner, who, ignorant of the presence of the Ambassador, had described the Chinese as a nation of barbarians. (Laughter.) Between the Law Society and the Chartered Accountant Students' Society there was a very true bond of kindredship or friendship; he alluded to the examinations. If his younger friends were to be believed, the examinations were much more difficult to-day than they were some forty years ago. He thought they were difficult enough then. (Laughter.) "But that is only a stage in your experience," continued the speaker; "very soon you will become fully-fledged Chartered Accountants."

I remember a time when there was some little jealousy between some individual solicitors and Chartered Accountants; it was thought that one or other was a little bit usurping the other's work. I have not heard of anything of that for twenty years, and I feel sure that all that has now quite passed away. At the same time, we as solicitors, and you as Chartered Accountants, are still liable to a little public chaff. Solicitors are sometimes gibed at because they defend people whom they know, so it is said, to be guilty. It is charged against accountants that they are able to prove anything from figures. (Laughter.)

Mr. P. J. HANNON, M.P., in submitting the toast of the Birmingham Chartered Accountant Students' Society, said that, after all, was *the* toast of the evening. "The Chartered Accountant and the member of the Society of Incorporated Accountants has to play a part in our public life which daily becomes more and more important to the maintenance of our industrial efficiency," declared the speaker. "Sometimes, of course, the accountant has to play a rather uncongenial part, because sometimes he has to tell a business man that his business qualities are not on that plane upon which the business man himself believed they stood. But in all our business activities we do depend upon the helpful, generous and considerate support of the two great branches of the professional bodies represented here this evening." I notice that you have set down for your spring programme a series of interesting lectures and of the functions enumerated in this programme, the annual dinner, if I may respectfully say so, is not the least interesting. (Laughter.)

This Students' Society has behind it a most creditable record. It is looking forward to a great future; it is preparing men who will take the places of the great guns who are here to-night in carrying out the work of keeping the business efficiency of the country at a high level, and you are associated, of course, with the lawyers and the bankers. . . . I sincerely hope that this Society will go forward and prosper; you have 350 members or thereabouts in this Birmingham area; you are doing exceedingly valuable work in keeping in touch with the University, and with every phase of public life, because an accountant, I take it, must have a full understanding of all the functions in our public life which make or mar the welfare of our nation. I am very glad the suggestion was made that some imagination, rather than hard, cast-iron attachment to the mere exposition of facts, should enter into this great profession; that is to say, in preparing your statement, in commenting on the facts of a business record, you would at the same time make suggestions practical, hopeful, helpful and inspiring to the business man in conducting the operations in which he is engaged.

I have great pleasure in congratulating the students on the past year's work, and wishing them every success. I combine with this toast the name of Mr. Kirk, the secretary of the Society, whose work has been marked by energy, enthusiasm, and a desire to promote the interests of the body whose functions he has to discharge. (Applause.)

Mr. B. C. Kirk, who was heartily received, said: First of all, Mr. Hannon, let me thank you for proposing the toast in so generous a manner. I think I may say that we have had quite a successful year. The membership at April 30th, 1926, was 334, and the membership to-day is 358, which shows a net increase of 24.

We have been fortunate in securing the services of some very excellent men, highly skilled in their particular sphere, and our heartiest thanks are due to them for the very high standard of lecturing they have attained. That these lectures have been appreciated and of great value to members is proved conclusively, I think, by the increased attendances.

Another venture which has been tried with success is the trip to the works of Messrs. Cadbury Bros. A party of 30 visited these works last Wednesday, and we had a most interesting and instructive afternoon, for a practical demonstration of office organisation, statistical records, &c., is more helpful than a lecture on this subject.

We have a good up-to-date library of books useful both for examination purposes and for reference. In connection with the library it is interesting to note that the Committee have passed a scheme formulated by our hon. librarian, Mr. Whitehill, whereby articled clerks can buy and sell books through the library at a nominal charge. This scheme saves the pocket of the articled clerk a considerable sum, and is now working with success.

In conclusion I would like to take this opportunity of expressing the Society's thanks to our principals and members of the senior Society, who, by their help, advice, and sympathy, encourage and aid us more than I can say. I thank you all on behalf of the Birmingham Chartered Accountant Students' Society for so generously responding to this toast. (Applause.)

Mr. W. E. S. Salt, A.C.A., then gave the toast of "Our Guests." He said: This important speech is considered in our Society to be part of the duty of its Chairman—unfortunately for me, and certainly so for you, for I cannot claim to be "one of the pick of the country" referred to by Sir Josiah Stamp.

Unfortunately, it is, of course, quite impossible for me to allude specifically to each of our guests, much as I should have liked to have done so. But I can assure you that we thank you one and all for the honour you have conferred upon our Society by accepting our invitation to this dinner. Mr. March, the Vice-President of our own Institute, we, of course, are delighted to have with us. Also Mr. Keens, the President of our great sister body, the Society of Incorporated Accountants and Auditors. The wide professional fame of these two great accountants will be known to you all, and I am sure that we have listened to their speeches with much interest. The Right Reverend Bishop Hamilton Baynes we especially welcome through his connection with this city, as also Mr. Registrar Lowe, Professor C. E. Smalley-Baker, Mr. G. F. Batty, Mr. T. Cumberland, and Mr. P. J. Hannon, M.P. I know that I can assure these gentlemen how honoured we all feel that men so distinguished and representing such varied vocations as the church, the law, the university, banking and politics, should be with us here to-night. Another of our guests, whose reputation both as an economist and as an accountant—or, should I say, an accountants' critic?—is world-wide, is Sir Josiah Stamp. I will only add that amongst our other guests whom we are delighted to welcome are Mr. C. Herbert Smith, President of the Birmingham District Society of Chartered Accountants; Mr. P. Barnes, His Majesty's Inspector of Taxes; Mr. Ridgway; Mr. F. J. B. Gardner, Hon. Secretary of the Union of Chartered Accountants Students' Society, whose great interest in the students' welfare is well known to you all, and the Secretaries of the Students' Societies of London, Sheffield, Bristol, Liverpool, Leeds and District. With the toast I couple the name of Bishop Hamilton Baynes. (Applause.)

Bishop Hamilton Baynes, who was heartily received, said: While it gives me great pleasure to respond to this toast, I have legitimate reason for complaining that my province has been considerably invaded to-night. Sir Josiah Stamp has given us explanations of morality which I would not even attempt to do, while Mr. March said he was going to preach us a little sermon, and Mr. Registrar Lowe has withdrawn the veil from the world beyond. (Laughter.) All the guests will agree with me that we feel very highly honoured in being invited to this lavish entertainment. Everyone seems unduly solicitous as to the health of the guests at a function of this kind, but I hope that the chef of this hotel will not think that there is any implication that it was necessary for you to be solicitous as to the health of those who have accepted your hospitality this evening. I am mindful of what an individual wrote, not long ago, concerning what he saw in a small south country town through which he was passing. He saw on the notice board of a chapel: "Saturday evening: Our Annual Tripe Supper. Sunday morning subject: A Night of Horror." (Laughter.) I feel most honoured by the invitation, for accountancy is a subject that fills me with awe. I have a son who is a Chartered Accountant, but where he got it from I do not know. (Laughter.) He did not get it from me. Heredity did not count for much in that case. (Laughter). I rather agree with Sir Josiah Stamp that there is room for the human element; there is always something behind mere facts and figures, and the human element should never be ignored. I wish you all possible success in this your organisation. (Applause).

Mr. E. B. Marston, Hon. Treasurer of the Society, gave the toast of "The President," whose response concluded the proceedings.

Reviews.

Costing and Cost Accounts for Wool Textiles. *By J. E. Williams, Incorporated Accountant. Revised by E. Sudworth, F.C.A. London: Gee & Co. (Publishers) Ltd., 6, Kirby Street, E.C. (70 pp. Price 8s. 6d. net.)*

This is a useful little handbook on Costing in relation to the textile trade. The explanations given are clear and brief, and the forms, with specimen entries, add materially to a clear understanding of the subject.

The Betting Duty and Bookmakers' Accounts. *By R. Stoddart Longcroft, A.C.A. London: Gee & Co. (Publishers) Ltd., 6, Kirby Street, E.C. (86 pp. Price 6s. net.)*

This publication is intended as a guide to the keeping of the necessary records by bookmakers for the purpose of recording their transactions in such a way as to show the amount of duty required to be paid to the Inland Revenue. The author deals fully with the method of carrying through the records, and supplies copies of the forms required for the purpose of the returns, with explanations as to how they should be filled up.

The Law of Partnership. (*Fifth Edition.*) *By J. Andrew Strahan, M.A., LL.B., and Norman H. Oldham, B.A., LL.B., Barristers-at-Law. London: Sweet & Maxwell, Limited, 2/3, Chancery Lane, W.C. (306 pp. Price 10s. net.)*

Partnership Law is here reviewed briefly in all its aspects, and in the appendix specimens of articles of partnership and deeds of dissolution are given. The matter is well arranged and the explanations are clear and definite. Those who desire to acquire a general knowledge of the subject without going through an elaborate treatise will find that this book meets their requirements.

Changes and Removals.

Mr. Arjun K. S. Aiyar, B.Com., Incorporated Accountant, has been admitted a partner in the firm of Messrs. K. S. Aiyar & Co., Incorporated Accountants, 65, Apollo Street, Bombay.

Messrs. Buzzacott, Lillywhite & Co., Incorporated Accountants, have removed their Burgess Hill office to 18A, Church Road.

Messrs. Thomas Eaves & Co., Incorporated Accountants, late of Venice Chambers, 61, Lord Street, Liverpool, have removed to Adelphi Bank Chambers, 19, South John Street, Liverpool. Telephone number and telegraphic address remain the same as before.

Mr. L. F. Elverstone, Incorporated Accountant, has commenced public practice at Post Office Buildings, Coalville, nr. Leicester.

Mr. G. Leonard Foulds, Incorporated Accountant, has taken over the practice lately carried on by Mr. A. R. Lamb at Federation Chambers, Wheeler Gate, Nottingham.

Mr. H. E. Gowan, Incorporated Accountant, has commenced public practice at Bevois House, 28, Basinghall Street, London, E.C.2.

Messrs. McDonald & Rees announce that they are now practising at Andrews Buildings, Queen Street, Cardiff, in addition to their address at Merchants' Exchange, Bute Docks.

Mr. Jas. M. McIntosh, Incorporated Accountant, 6, Cherry Street, Birmingham, announces that he is taking his son, Mr. Jas. M. McIntosh (Junr.), Chartered Accountant, into partnership as from March 26th, 1927. The title of the firm will be Jas. M. McIntosh & Son and will be carried on at the same address.

Mr. K. P. Soni, Incorporated Accountant, has commenced public practice at 7, Abbott Road, Lahore, India.

Correspondence.

"INC. ACCOUNTANT."

To the Editors *Incorporated Accountants' Journal.*

Sirs,—In a recent number of the *London Gazette* I observed an official announcement signed by a member of the Society who appended to his signature the weird description "Inc. Accountant." I think the member referred to must lack a sense of humour. Could he or any of your readers imagine a Chartered Accountant rejoicing in the self-imposed designation of "Char. Accountant"?

Yours, &c.,
INCORPORATED ACCOUNTANT.

Society of Incorporated Accountants and Auditors.

South African (East) Branch.

Report of Committee.

The local Committee submit herewith the balance-sheet as at December 31st, 1926, and the revenue and expenditure account for the year 1926.

During the year eleven new members were admitted.

The membership roll at December 31st, 1926, stood at 157.

During the year the usual examinations were held. In May ten sat for the Final, and two passed; twelve sat for the Intermediate, and six passed. In November nine sat for the Final and three passed; seven sat for the Intermediate, and one passed; and two sat for the Preliminary and passed.

Your Committee regret to report the death of Mr. John Dougall, of Pretoria, during the year. Mr. Dougall had been one of our most useful and active members for many years.

During the year members in South Africa had the benefit of a visit from the President of the Society, Mr. George Stanhope Pitt. Your Committee held many meetings with Mr. Pitt, who was then in a position to report fully to the Council on the situation in South Africa. It is anticipated that a re-arrangement of the Branches in South Africa will be announced shortly.

Under the bye-laws of the Branch all members of the Committee retire annually, and are deemed to be nominated for re-election.

ANNUAL GENERAL MEETING.

The annual general meeting of this Branch was held at Johannesburg on February 10th, 1927, over which the Chairman of the Branch, Mr. M. van der S. Dreyer, presided.

Chairman's Speech.

Mr. Dreyer said: In moving the adoption of the report and accounts which are before you, allow me, briefly, to refer to several matters of interest to you as members of this Society.

Accounts.

It is a matter for congratulation that in spite of certain extraordinary expenditure, occasioned by the visit of the President to South Africa, we are able to show an excess of revenue over expenditure for the year. This is due to a substantial increase of examination fees, as compared with receipts from this source as shown in the accounts for the previous year.

Examinations.

The Society's examinations were held in May and November, and I regret the majority of the candidates failed to satisfy the examiners. For the Final examination nineteen candidates sat and five passed, a percentage of 26; for the Intermediate nineteen sat and seven passed, a percentage of 37; in the Preliminary examination two sat and both passed.

Registration of Articles.

During the year 25 sets of articles of clerkship were registered, which is a record for this Branch for any one year.

Deaths.

Since our last meeting we have lost, we regret, through death, two of our oldest members in the persons of Mr. John Dougall, of Pretoria, and Mr. Jacobus Wege, of this town.

Visit of the President of the Society.

On the occasion of the President's visit to South Africa in June, your Chairman and Secretary travelled to Cape Town

to meet Mr. G. Stanhope Pitt on his arrival, and to represent your Branch at a Conference held in Cape Town with representatives of the West Branch. At this Conference and subsequent meetings, matters were discussed which will tend towards a closer co-ordination between the two Branches. From Cape Town Mr. Pitt proceeded to Johannesburg, where he conferred with your Committee, and you had an opportunity to meet him at a special meeting, when he delivered an address. The President, while in Johannesburg, also met representatives of the South African Societies on the question of your Society's examinations, but we regret that no workable arrangement was arrived at. From here Mr. Pitt, accompanied by your Secretary, left for Durban, where he met and discussed with members in Natal matters affecting their interests in the profession. I am sure we all feel grateful to the President for his visit and the friendly interest evinced by the Council of the Society in matters affecting the profession in South Africa.

SOCIETY'S ORGANISATION IN SOUTH AFRICA.

Since Mr. Pitt's return to England we have been furnished with a draft scheme for the Society's re-organisation in South Africa.

(1) Briefly, the scheme provides for three Regional Committees.

(*a*) The Western Committee dealing with the Cape Province and the Orange River Colony.

(*b*) The Northern Committee dealing with the Transvaal and Rhodesia.

(*c*) The Eastern Committee dealing with Natal.

(2) And in addition, to set up an Advisory Committee for the whole of South Africa, to be constituted as follows:—

(*a*) Three members, consisting of the Chairman of each of the three Regional Committee, *ex officio*.

(*b*) Nine other Incorporated Accountants, who are Fellows, to be nominated by the Council of the Society, three from each of the regions indicated above.

The functions of the Advisory Council will be:—

(*a*) To keep in touch with the Regional Committees and to co-ordinate their policy and activities as far as possible.

(*b*) To advise the Council in England from time to time upon questions of policy.

(*c*) To deal directly with the General Examining Board and the respective Accountants' Societies in South Africa in negotiations on behalf of the Society.

(*d*) To deal with such other matters as may be delegated to them from time to time.

In accordance with the foregoing the Council has nominated nine members to this Advisory Council, subject to their acceptance of the office.

LEGISLATION AFFECTING THE PROFESSION.

During the last session of Parliament two Bills were passed affecting the interests of the profession, viz, the Insolvency Bill to amend the Act of 1916, and the new Companies Act.

COMMITTEE.

It is regretted that Mr. M. B. Gardner found it necessary to resign from the Committee before the termination of the year; the vacancy has, however, been filled by the election of Mr. L. A. Whiteley. My Committee desire me to express on their behalf their appreciation of the zeal and unremitting attention to the work of your Society, of your Secretary, Mr. D. P. C. Blair. Gentlemen, I now beg formally to move the adoption of the report and accounts for the past year.

Mr. E. C. LOWE seconded, and the resolution was unanimously adopted.

Mr. O. F. BROTHERTON was re-elected auditor, and the retiring members of the Committee were duly re-elected.

A vote of thanks was accorded to the Chairman at the termination of the meeting.

Swansea & South-West Wales District Society of Incorporated Accountants.

INAUGURAL DINNER.

The Swansea and South-West Wales District Society held a successful inaugural dinner at the Hotel Metropole, Swansea, on February 25th.

Mr. W. H. ASHMOLE, M.B.E., F.S.A.A., occupied the chair. Those present included the Deputy Mayor of Swansea (Mr. W. D. Rees), Mr. J. Percy Mountjoy, O.B.E., F.C.A. (Cardiff) (President, South Wales and Monmouthshire District Society of Chartered Accountants), Mr. Henry Morgan, F.S.A.A. (London) (Vice-President of the Parent Society), Mr. A. A. Garrett, B.A., B.Sc. (London) (Secretary of the Parent Society), Mr. R. Wilson Bartlett, F.S.A.A. (Newport) (President, South Wales and Monmouthshire District Society), Mr. G. Brinley Bowen, F.S.A.A. (Swansea) (Vice-President, Swansea and South-West Wales District Society), Mr. J. Pearson Griffiths, F.S.A.A. (Cardiff) (Vice-President, South Wales and Monmouthshire District Society), Mr. W. A. Jenkins (President, Swansea Chamber of Trade), Mr. Percy H. Walker, F.S.A.A. (Cardiff) (Hon. Secretary, South Wales and Monmouthshire District Society), Mr. J. Vaughan Edwards, O.B.E. (President, Swansea and Neath Incorporated Law Society), Mr. T. J. Rees, B.A. (Director of Education, Swansea), Mr. Sidney Heath (Swansea) (Chairman, Swansea Chamber of Trade), Mr. T. Mills, F.S.A.A., Mr. T. O. Morgan, A.S.A.A. (Hon. Secretary), Mr. A. Owen John, F.C.A., Mr. P. Hayes, A.S.A.A. (Cardiff), Mr. W. Picton Jones, F.S.A.A., Mr. T. H. Griffith, F.S.A.A., Mr. F. Jennings, F.S.A.A. (Neath), Mr. A. E. Thomas, A.C.A., Mr. H. Edwards, F.S.A.A., Mr. A. W. Sleeman, A.S.A.A., Mr. G. G. Mullens, F.S.A.A. (Port Talbot), Mr. J. Picton James, M.B.E., A.S.A.A., Mr. W. Glynn Miles, A.C.A., A.S.A.A., Mr. B. Baddiel, A.C.A., Mr. A. E. Buse, A.S.A.A., Mr. S. Lloyd Francis, F.S.A.A., Mr. G. M. Griffith, A.S.A.A., Mr. G. A. Watkins, A.S.A.A., Mr. E. S. Hollingdale, F.S.A.A., Mr. G. E. Davies, A.S.A.A., Mr. I. C. Phillips, A.S.A.A., Mr. J. T. Nicholas, A.S.A.A., Mr. W. J. Crook, A.C.I.S., Mr. D. J. Charles, B.A., Mr. H. J. Thomas, M.Com. (Birmingham), Mr. A. Jones, B.Sc., Mr. J. Webster, A.C.A.

After the toast of "The King"

Mr. T. J. REES, in the absence of the Mayor of Neath, gave the toast of "Swansea," and in an amusing and appropriate speech gave examples of the striking progress of the town. They remembered their Chairman as their former Borough Treasurer, although he was now in public practice.

The DEPUTY MAYOR, replying, spoke of the necessity of increasing ratepayers' interests in municipal affairs and elections, and

Mr. W. A. JENKINS, speaking as a new Councillor as well as President of the Chamber of Trade, said accountants

and bankers knew best that big ratepayers were finding it difficult to bear the burdens imposed by public authorities in these days. Those authorities needed at this juncture to mark time and to restrict capital expenditure to enterprises absolutely essential to the health and comfort of the people.

Mr. G. Brinley Bowen, in proposing "The Society of Incorporated Accountants and Auditors," said although the Society was one of the youngest professional bodies (barely 50 years old), he doubted if there was any class that had so woven itself into the fabric and the commerce of the country as the professional accountant in that half a century or less. He thought they could find the reason for this in the fact that the professional accountant had been directed, controlled and organised by such a body as the Society. He regretted the hazy ideas held by the general public as to the professional accountant, and also a recent development which suggested they should go to Harrod's for accountants—there ought to be limits to the activities of a general store! Having touched on the necessity of thorough training and of the tests of admission and the examination ensuring that result, Mr. Bowen emphasised the need of irreproachable integrity. The public had a right to place its confidence in individuals who would not abuse that confidence. He was satisfied that the policy of the Society had been, was, and would be used to that end. It was a pleasure to welcome Mr. Henry Morgan almost on his native heath—he was a native of Montgomeryshire—and Mr. Garrett on his first visit to Swansea.

Mr. Henry Morgan, who was very cordially received on rising to respond, said he was deeply touched by the warmth of the welcome, while regretting that on such an important occasion the President was unable to be present himself to bring his greetings. He trusted the District Society might attain success worthy of the important industrial centre with which the activities of so many of its members were identified, and had no doubt it would attain high importance. He did not wish to strike any sad note, but it was due to a memory to point out that but for the intervention of fate it was almost certain the Council would have been represented there that night by its first Welsh President, Major Gwilym Arnold Evans, whose untimely death during his Vice-Presidency was such a loss to the Council of the Society, and especially in South Wales. It was not inappropriate that the President should have deputed him to attend, for although most of his life had been spent in London he was brought up, educated and spent the years of his early manhood in Wales, so that it was a happy coincidence to him that on that somewhat notable occasion he was amongst his own people in the land of his fathers. In the 28 years since he had migrated to London he had been in close touch with the Incorporated Society, first as a very keen member of the London Students' Society, then as President of that body, subsequently as member of the Council, and, more recently, as their Vice-President. This long period had seen very great changes in the profession and in the Society. Important as was the part of consultants in business and commerce at the end of last century, it could not be denied that their present part was very much greater now. During the war there was no profession in the country which enhanced its reputation to a greater degree than did theirs, which throughout the country were called upon for great efforts in commercial organisation for war purposes. They could fearlessly claim that they contributed their full share to the ultimate success. The enormous taxation resulting from the war had added to their responsibilities and the extent of their activities, and to-day the Government were dependent upon the accountancy profession for the working machinery for the collection of a big proportion of the national revenue. He had also seen a great advance in the Society in relation to the profession as a whole. Twenty-eight years ago the Institute of Chartered Accountants was the premier body of qualified accountants in the country—a position which they still maintained. At that time their Society, though already making good progress, undoubtedly had a big gap to make up. To-day their Society was undoubtedly one of the two bodies whose members were recognised as qualified accountants, and the terms "Chartered" and "Incorporated" served to distinguish their members from those others belonging to the various outside societies that had sprung into existence in the later years. The Society's membership had increased from 1,636 in 1900 to 4,680 to-day. The younger members owed a deep debt of gratitude to Sir James Martin, who could rightly be designated the "Grand Old Man" of the Society, and the other pioneers for the great work they had accomplished in bringing their Society to its present position. The younger generation had now to do its part in continuing the progress in placing accountancy and the Society in the front rank of the professions. Passing to his experiences at the International Congress of Accountants and its revelation to him that in no other country was the profession so definitely organised as here, Mr. Morgan said the great duty was to instil into members, and especially in younger members, the spirit of a profession. It was adherence to recognised professional principles and the insistence upon orthodox methods of practice that raised the standard of the Society and distinguished members from unqualified practitioners, who resorted to the setting up of income tax agencies, trade protection societies, advertising, circularising and similar methods to get business. In spite of the difficulties of young men who had to make practices, in competing against such methods the important thing was to play the game, and in the long run membership of a Society such as theirs would more than compensate for any restrictions in acting up to the principles laid down for the regulation of members, and thus help to maintain the dignity and high reputation of the Society. Touching on the Council's work, the speaker said a suitable site for the proposed new building had not yet been secured, but there were two or three suggestions, and it was hoped before long to put forward a concrete scheme for adoption by the Council. In the minds of a large section of the community there was a woeful lack of knowledge as to the professional work carried out by qualified accountants, and it was for the Society to make known in every way possible, consistent with professional methods, that Chartered and Incorporated Accountants were those who, by their training, experience and reputation, were best fitted to undertake these classes of work, and that their employment was a guarantee of efficiency and integrity. Subject to the completion of the necessary arrangements, the Autumnal Conference would be held in Manchester, probably in the last week of September. An invitation extended by the Manchester District Society had been accepted by the Council, and it was hoped there would be wide support and a large attendance of members from every part of the country. (Applause.)

Also replying, Mr. A. A. Garrett (Secretary) joined in the thanks for the kind welcome. Speaking of the wide field covered by Incorporated Accountants, he remarked that perhaps the most elementary idea of the public in regard to accountants was that they knew beyond question that two and two made four. But that was not sufficient; they must also be able to persuade other people that two and two made four. He extended hearty congratulations upon the formation of the District Society and upon the success of

the initial function. Under the leadership of Mr. Ashmole, Mr. Brinley Bowen and Mr. Morgan they were assured of a successful issue to their work. District Societies were an integral and essential part of the Society's organisation, co-ordinating educational facilities and professional activities. He paid a tribute to the work of the South Wales and Monmouthshire Society and its generous attitude in co-operating with the Swansea members in their present endeavour for the united purpose of promoting the interests of the Society as a whole. As to future activities of the Society, the Secretary emphasised the need of infusing into the public mind a proper discrimination between properly qualified and unqualified. Thus they would give the young practitioner a fair chance and a square deal and the public a continuance of skilled service, integrity and efficiency. The educational work of the Society meant, not something imposed but something elicited, something liberated from experience, knowledge and professional association, although probably candidates did not take that view of the examinations! In conclusion, he assured them of his continuing desire to co-operate with them and Incorporated Accountants everywhere for the advancement of their common interest.

"The Swansea and South Wales District Society" was given by Mr. R. WILSON BARTLETT, who said that the duties of the District Society had been carried out faithfully and well by the South Wales and Monmouthshire District Society, which last year numbered some 250 members, and found its constituent sections developing so rapidly that this one had to be changed into a District Society. They were there to wish success to the body, recognising the work that had been well done for years by the Swansea and district members of the South Wales and Monmouthshire Society.

The CHAIRMAN, responding, expressed his sense of the privilege of being the first President, and his desire that the new district should continue to work in close harmony with the District Society of South Wales and Monmouthshire. His own 25 years of association with the Society had been full of pleasure and interest, and if he could have the time over again he would not wish it different. The growth of the profession in the district had been very great. Sixteen years ago there were only four members in the district, and to-day there were in Swansea 25 members and 50 students—the hope of the future. Their status was improving, but it was a mistake to suppose that in this direction there was no more to be done. They must seek to be regarded as no mere compilers of statistics, calculators of profits and losses, but consultants as to the "how" and "why" of these. They must still more protect the designation "accountant," and for that reason he believed Chartered and Incorporated would need to get much nearer together than they were at present.

To "The Visitors," given by Mr. THOMAS MILLS, Mr. J. PERCY MOUNTJOY and Mr. J. VAUGHAN EDWARDS replied.

Messrs. Walter Hunter, Bartlett & Co., Incorporated Accountants, held their annual staff dinner at the Queen's Hotel, Newport, on March 1st. Mr. F. J. Notley, A.S.A.A., proposed the toast of "The Firm," to which Mr. R. C. L. Thomas, F.S.A.A., responded, and in his remarks included a *resumé* of the year's work. From an examination point of view he said that there had been three successes in the Society's examinations, Mr. F. M. Forster, Mr. W. Thomas and Mr. V. W. V. Holtham having passed their Intermediate examinations. Mr. R. Wilson Bartlett, F.S.A.A., proposed "The Visitors," and said how pleased to was to see Mr. J. Pearson Griffiths, Vice-President, and Mr. Percy H. Walker, Hon. Secretary of the South Wales and Monmouthshire District Society of Incorporated Accountants, present that evening, particularly as the latter was also an old member of the staff. Mr. J. Pearson Griffiths, in responding, said the occasion was one of note in the history of the firm, as Mr. R. Wilson Bartlett was, for this year, President of the South Wales and Monmouthshire District Society of Incorporated Accountants.

UNSUCCESSFUL CLAIM FOR MISREPRESENTATION.

In the King's Bench Division recently, before the Lord Chief Justice and a special jury, Mr. Wm. Clifford Gaunt, of Woodlawn, Apperley Bridge, near Bradford, who trades as Wade Wright & Co., Albion Mills, Idle, Bradford, sued Mr. Carter Pegg, Chartered Accountant, of Ironmonger Lane, London, E.C., for damages for alleged fraudulent misrepresentation. Defendant denied the allegation.

Appearing for the plaintiff, Mr. Linton Thorpe stated that Mr. Gaunt was a gentleman with many interests, the chief one being in the textile trade. He also was connected with various London theatres. Mr. Carter Pegg was a partner with a Mr. Sherrett as a Chartered Accountant. The allegation, shortly, was that Mr. Pegg had been guilty of fraudulent misrepresentation in that he gave to Mr. Gaunt particulars of a business in London that he knew to be incorrect. It appeared that in Gravel Lane, London, there was a firm called Fox, Oldroyd & Co., and in January, 1924, Mr. Gaunt's firm of Wade Wright & Co., received an application from Fox, Oldroyd & Co., for a supply of goods. Two references were forwarded, one of them being Messrs. Sherrett & Pegg. To that firm the following note was sent by Wade Wright & Co.: "Fox, Oldroyd & Co., Limited, are desirous of opening an account with us We shall be glad to know if you consider them good for credit to £400 or £500, and if they will take up their discounts properly." The reply was: "We have known Mr. Fox and Mr. Oldroyd, who are directors, for a considerable time and find them both persons of integrity. Our Mr. Pegg is interested in the company, and we think you will be quite safe in allowing the usual month's credit."

After that, proceeded Counsel, goods were supplied to Fox, Oldroyd & Co., who met the first bill. Later, however, plaintiff's firm supplied a further £300 worth and were paid only £100. It was discovered that Mr. Pegg was the promoter of the company that had only been registered for two days when Mr. Pegg sent the letter of reference, and literally had not an asset beyond an office table. Mr. Pegg received £100 for his services as promoter. In the end, having received £300 worth of goods, Fox, Oldroyd & Co., by issuing debentures, mostly to a daughter of one of the directors, paid £100 to plaintiff, and then became insolvent with a deficit of £3,800. Mr. Sherrett, the defendant's partner, was appointed receiver for the debenture holder, and, although Mr. Gaunt obtained judgment for £223 against the company he did not get a penny on that judgment, nor did he get his goods back because they had been seized by the debenture holder.

Mr. Bertram Stevenson, assistant manager of Wade Wright & Co., said he was not informed that Fox, Oldroyd and Co. was a new company, and receiving the references he made no further inquiries. He was of opinion that Mr. Pegg had told untruths about the company.

His Lordship: You are charging him with a crime. Where in his letter to the plaintiff do you say he lied? Was he wrong when he said Mr. Fox and Mr. Oldroyd were persons of integrity?—We base our opinion on our experience of them.

His Lordship: You are imputing fraud to this gentleman when you don't know what he knew.

Witness: I don't agree with the last sentence of his letter, which was: "It is safe to allow them the usual month's credit." I say he lied there.

His Lordship: For all you know Mr. Pegg's experience of Mr. Oldroyd and Mr. Fox hitherto may have led him to believe that both were of the highest integrity. After all, Mr. Pegg could not be expected to know in January what would happen in the following July.

Mr. Kitson, at the conclusion of the plaintiff's evidence, on behalf of the defendant said his submission was that

there was no case of misrepresentation made out. Mr. Pegg was ready and willing to go into the box, but he (Mr. Kitson) did not think it necessary to call him. Mr. Kitson, in the course of his address, pointed out that when the firm of Fox, Oldroyd & Co. was formed, £1,250 was subscribed in fully paid up shares, and the books of the company indicated that the sum was available for the purposes of the company's business. There has not been shown the slightest evidence of fraud on the defendant's part. The money which the shareholders had paid showed that they had confidence in the undertaking, and these facts proved abundantly not only that there was no fraud in connection with the letter written by the defendant, but it showed affirmatively that the letter was true.

His Lordship in summing up observed that to justify fraud the statements of the defendant must have been made recklessly and not caring whether they were true or false. The alleged fraud was founded upon a statement that the company could safely be given a month's credit. On what grounds could Mr. Pegg be said to be lying when he said that? As a matter of fact the plaintiff was trying to impute to the defendant at the beginning of the story the wisdom that came after.

The jury at once returned a verdict for the defendant, and judgment was entered in his favour with costs.

Society of Incorporated Accountants and Auditors.

(Scottish Branch.)

ANNUAL MEETING.

The annual meeting of the Scottish Branch was held at Glasgow on the 18th ult. There were present:—Mr. D. Hill Jack, J.P., President, who presided, Dr. John Bell, Mr. D. M. A. Brunton, Mr. R. T. Dunlop, Mr. J. Simpson Fraser, Mr. R. Fraser, Mr. John S. Gavin, Mr. J. A. Gough, Mr. W. Davidson Hall, Mr. Wm. Houston, Mr. W. Hill Jack, Mr. J. T. MacKenzie, Mr. E. Niven, Mr. J. Cradock Walker (Glasgow); Mr. D. R. Matheson, M.A., LL.B., Mr. Walter MacGregor, Mr. J. Stewart Seggie, C.A. (Edinburgh); Mr. A. Scott Finnie (Aberdeen); Mr. E. Mortimer Brodie (Port-Glasgow); Mr. W. J. Wood (Perth); Mr. James A. Scott (Kilmarnock); also Mr. James Paterson, Secretary of the Branch.

The President in moving the adoption of the annual report and accounts, said that it would be noticed that since the last annual meeting they had lost by death six of their oldest members, including two Vice-Presidents, Mr. Wm. Robertson (Edinburgh) and Mr. Robert Young (Elgin). These gentlemen had been associated in the work of the Society and before that of the Scottish Institute for many years, and he personally felt the loss of such old friends and colleagues very much. The Council had already recorded their regret and sense of loss and sympathy with the relatives, but he felt it only right to again refer to the matter at this meeting and to ask that similar expressions of regret be mentioned in the minutes of this meeting. After referring to various items in the report and accounts, the President formally moved their adoption. This was seconded by Dr. Bell, and, after remarks by several members, unanimously agreed to. The retiring members of Council, Mr. W. J. Wood (Perth), Mr. J. Stewart Seggie (Edinburgh), Mr. James Paterson (Greenock), Mr. W. Davidson Hall (Glasgow), and Mr. E. Mortimer Brodie (Port-Glasgow), were re-elected.

The Auditors, Mr. D. M. A. Brunton and Mr. Robert Fraser, were re-elected.

Report.

The Council have pleasure in presenting the 47th annual report of the Scottish Institute of Accountants (the Scottish Branch of the Society).

The Council regret to have to record the deaths since the last annual meeting of the following members:—Mr. John Meikle (Glasgow), Mr. John Benson (Airdrie), Mr. Robert Turnbull (Kilmarnock), Mr. William Robertson and Mr. George E. Dall (Edinburgh), and of Mr. Robert Young (Elgin).

Mr. Robertson and Mr. Young were for many years members of the Scottish Council and Vice-Presidents of the Branch. Both took a very active interest in all the work of the Society in Scotland, and were faithful attenders at the Council and other meetings of the Branch, and the Council desire to place on record their deep sense of the great loss the Society has sustained by the deaths of Mr. Robertson and Mr. Young.

Mr. Meikle was only a short time a member of the Scottish Council, but during that time took a keen interest in the work. The vacancy in the Council caused by the death of Mr. Meikle was filled by the appointment of Mr. Edward Mortimer Brodie, F.S.A.A. (Port Glasgow). The members will be asked to confirm this appointment. The vacancies in the Council caused by the deaths of Mr. Young and Mr. Robertson fall to be filled up by the Council.

The number of clerks indentured under articles to Scottish members again shows an increase, and also the number of candidates applying for admission to the examinations under the special bye-laws of the Society.

The Council would again remind city members of the desirability of assisting country apprentices who may wish to attend university and other professional classes by transfer of articles.

While a number of new members have been added by examination, the Branch has suffered loss by death of old members and by the removal of young members to situations in England and abroad. Only members practising or resident in Scotland are included as members of the Scottish Branch and no account is taken of Scottish members furth of Scotland.

The revised constitution and bye-laws of the Branch duly received the formal approval of the Council of the Society as required by sect. 18, and are now in force.

The Students' Society has continued its good work during the year and a number of successful lectures have been held.

The Society is represented on the membership of the Glasgow Chamber of Commerce by Mr. Robert T. Dunlop and Mr. John A. Gough (Glasgow).

The attention of Scottish members is called to the Benevolent Fund of the Society and to the *Incorporated Accountants' Journal*, the official organ of the Society, both of which are commended to the interest of the members of the Society in Scotland.

A Conference of Incorporated Accountants has been arranged to be held in Manchester on September 28th and three succeeding days. Scottish members are requested to note the dates and endeavour to be present.

Members of Council who retire by rotation at this time are: Mr. W. J. Wood (Perth), Mr. J. Stewart Seggie (Edinburgh), Mr. James Paterson (Greenock) and Mr. W. Davidson Hall (Glasgow), all of whom are eligible for re-election. The members will also be asked to confirm the co-option of Mr. Edward Mortimer Brodie to the Council in room of the late Mr. John Meikle.

The Honorary Auditors, Mr. D. M. A. Brunton and Mr. Robert Fraser, also retire and are eligible for re-election.

Mr. R. Wilson Bartlett, President of the South Wales and Monmouthshire District Society of Incorporated Accountants, has been elected President of the Newport (Mon.) Chamber of Commerce.

Scottish Notes.

(FROM OUR CORRESPONDENT.)

Scottish Council.

A meeting of the Council of the Scottish Branch was held in Glasgow on the 18th ult. Mr. D. Hill Jack, J.P. (President) in the chair. There were also present: Dr. John Bell, Mr. R. T. Dunlop, Mr. John A. Gough, Mr. W. Davidson Hall, Mr. William Houston, and Mr. J. Cradock Walker (Glasgow); Mr. Walter MacGregor and Mr. J. Stewart Seggie (Edinburgh); Mr. A. Scott Finnie (Aberdeen); Mr. W. J. Wood (Perth); Mr. J. T. Morrison (Coatbridge); Mr. E. Mortimer Brodie (Port Glasgow); and Mr. James Paterson, Secretary. Mr. D. R. Matheson joined the Council in its later proceedings. Before commencing the business of the meeting, the President referred to the great loss the Society in Scotland, and the Scottish Council in particular, had sustained by the death of their colleague, Mr. Robert Young (Elgin), who had been one of the earliest members of the Scottish Institute, and a member of Council and an active and most helpful Vice-President for about 30 years. He moved that suitable mention be recorded in the minutes of the Council, and, along with sympathy and regrets of the Council, conveyed to his widow and daughter. This was seconded by Dr. John Bell and agreed to. The two vacancies in the Council caused by the deaths of Mr. Wm. Robertson (Edinburgh) and Mr. Robert Young (Elgin) were filled by the co-option of Mr. D. R. Matheson, M.A., LL.B. (Edinburgh), and Mr. D. M. Muir, Burgh Chamberlain (Dunfermline). Mr. Matheson was present and accepted office. A variety of other business was done, and suitably disposed of.

At a meeting of Council held after the annual meeting Mr. D. Hill Jack was unanimously re-elected President of the Branch; Dr. John Bell was re-elected a Vice-President, and Mr. R. T. Dunlop and Mr. J. Stewart Seggie were elected to fill the other two vacancies in the Vice-Presidentship.

Glasgow Students' Society.

A meeting of the Glasgow Students' Society was held on the 3rd ult., when a lecture on "Income Tax" was given by Mr. A. R. Weir, F.S.A.A. There was a large attendance. Mr. John S. Gavin, F.S.A.A., presided, and an apology for absence was intimated from Mr. James Paterson (Secretary of the Scottish Branch), who was unavoidably detained in London on Society business. Mr. Weir traced the procedure from the issue of the schedules to the computation and assessment of liability. He also discussed the various allowances granted to the taxpayer, and the method of repayment where valid claims had been lodged. The Finance Act of 1926 was referred to in regard to the abolition of average, and it was pointed out that the average might still be claimed in certain circumstances for the years 1927-28 and 1928-29. At the close of the meeting Mr. Weir was accorded a hearty vote of thanks for his lecture.

The annual meeting of the Students' Society was held on the 28th ult. Mr. J. Tannett MacKenzie, F.S.A.A., presided over a large attendance of students and friends.

Notes on Legal Cases.

INTESTACY.

In re Bower Williams.

Property accruing to Settlor on Wife's Intestacy.

By sect. 42 of the Bankruptcy Act, 1914, voluntary settlements made within two years of the bankruptcy of the settlor are void as against the trustee in bankruptcy, with certain exceptions, one being "a settlement made on or for the wife or children of the settlor of property which has accrued to the settlor after marriage in right of his wife." A wife who was possessed of certain shares died intestate. Her husband took out administration, settled the shares upon trusts for the daughter of the marriage, and became bankrupt within two years.

It was held by the Court of Appeal that notwithstanding the operation of the Married Women's Property Act, 1882, and the independence which it gave to a wife in the holding of her property, the husband had taken the shares *jure mariti*, or "in right of his wife," and the settlement upon the daughter was not void.

(C.A.; (1927) 43 T.L.R., 225.)

REVENUE.

Mitchell v. B. W. Noble, Limited.

Payment to Retiring Director.

The Court of Appeal, in affirming the decision of Rowlatt (J.) (see *Incorporated Accountants' Journal*, February, p. 182), held that a payment by a company to a director in order to induce him to retire, in circumstances in which the other directors had come to the conclusion that it was essential in the interests of the company that he should retire, was a business expense deductible from the company's profits for purposes of income tax.

(C.A.; (1927) 43 T.L.R., 245.)

Inland Revenue v. Trustees of Roberts Marine Mansions.

Endowment of Holiday Homes for Members of a Trade.

By a declaration of trust "a home or place of residence" was founded and endowed, "where persons requiring temporary rest and change of air for the benefit of their health may obtain the same." About half the income of the home came from payments from visitors, who included convalescents, persons needing rest and change, and holiday applicants. The trustees claimed exemption from income tax on the ground that the trust was established for charitable purposes only.

It was held by the Court of Appeal, reversing the decision of Rowlatt, J. (see *Incorporated Accountants' Journal*, January, p. 148), that since, on the construction of the trust deed, there was throughout an overriding charity which fulfilled the character of a charitable convalescent home, the trustees were entitled to the exemption claimed.

(C.A.; (1927) 43 T.L.R., 270.)

Todd v. Egyptian Delta Land and Investment Company.

Company Registered in England, Managed Abroad.

The Court of Appeal, in affirming the decision of Rowlatt (J.) (see *Incorporated Accountants' Journal*, January, p. 148), held that although a company, which is registered in this country but has its control and management abroad, resides where it is controlled and managed, yet it does not reside there exclusively, but it necessarily resides in this country so as to be liable to income tax, because it is obliged by law to perform in this country certain duties which cannot be performed abroad, such as having a registered office and keeping a register of shareholders.

(C.A.; (1927) 43 T.L.R., 275.)

Ingle v. Farrand.

Wrongful Assessment to Income Tax under Schedule E.

A clerk in the service of the London County Council was assessed to income tax for the year 1921-22 under Schedule E in respect of his employment, but he ought to have been assessed under Schedule D on an average of three years' profits. After the passing of the Finance Act, 1922, an additional assessment was made in respect of increased remuneration.

The House of Lords held that the provisions of sect. 18 (6) of the Act of 1922 were not retrospective so as to make the clerk liable on the additional assessment, which had become final and conclusive before May 1st, 1922.

(H.L.; (1927) 71 S.J., 191.)